

BEFORE THE ILLINOIS POLLUTION CONTROL BOARD

IN THE MATTER OF:

PROPOSED NEW 35 ILL. ADM. CODE 217  
SUBPART W, THE NO<sub>x</sub> TRADING PROGRAM  
FOR ELECTRICAL GENERATING UNITS, AND  
AMENDMENTS TO 35 ILL. ADM. CODE 211  
AND 217

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) R01-9  
) (Rulemaking-Air)  
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TESTIMONY OF TONY SHEA

My name is Tony Shea. I am employed by ABB Energy Ventures, Inc. of Princeton, New Jersey, as Project Manager. Through our subsidiary, Grand Prairie Energy, L.L.C., our company is developing a 500 MW combined cycle electrical generating facility at Bartlett in DuPage County, Illinois. We are also considering future development of additional units at the Bartlett site, although no definite plans for such units exist as yet. We currently project start-up of our facility may occur during the second quarter of 2003.

The recently issued IEPA construction permit for Grande Prairie's Bartlett facility provides for a maximum NO<sub>x</sub> emission rate of 0.017 lb/million Btu when burning gas, or 0.043 lb/million Btu when burning oil, at maximum load. This is far below the target average emission rate of 0.15 lb/million Btu for all budget EGU's. Nevertheless, we project that our May 1 - September 30 seasonal NO<sub>x</sub> emissions for 2002 and subsequent years may be as much as 90 tons, and that we will be in competition for allocation of the required NO<sub>x</sub> allowances from the new source set-aside for the years 2003, 2004, and 2005.

Previous testimony by Agency witnesses suggests that fifty or more new power plants may be competing for a share of the 1,535 allowances available from the new source set-aside for 2003, 2004, and 2005. Testimony by Richard Bulley, Executive Director of Mid-America Interconnected Network, Inc. (MAIN), at the August 23, 2000 Board hearing on Peaker Plants (Docket No. R01-10) indicates that additional generating capacity beyond that which presently exists in the MAIN region is essential for provision of reserve generating capacity margins necessary for reliable service. We believe the proposed number of allowances for new sources will fall far short of what is needed to accommodate this additional capacity. We recognize that the number of new source set-aside allowances is limited by statute to 5% of the total EGU budget, but we are also very concerned about the availability of sufficient allowances on the

open market at a reasonable and affordable cost to meet the needs of all new sources that will have a need for them. If allowances are not available, or cannot be purchased at an affordable price, we will be left at a serious competitive disadvantage and unable to produce the revenue stream during the May - September control period necessary to recover our investment.

Equally important, electric energy customers in Illinois may see a supply shortage during summer peak demand periods if newly-added generating capacity cannot be operated because allowances are not available.

We recommend, therefore, that the Board maintain the new source set-aside at the statutory maximum, and that the Agency seek legislative approval to increase the maximum new source set-aside to a level commensurate with need to meet the projected increasing demand and to maintain adequate capacity reserve. The size of the new source set-aside should be whatever is required to allow allocation to new sources at the same ratio of allowances allocated to allowances needed, as is applicable to existing sources listed in Appendix F of proposed Subpart W.

We also urge that the 2% new source set-aside proposed by the Agency for 2006 and subsequent years be increased to the statutory maximum, with provision that any such allowances not allocated to new sources be distributed to existing budget EGU's on a pro rata basis. This will help new EGU's compete with existing EGU's on a more nearly level playing field than provided in the Agency's proposal.

We also question the fairness of the Agency's proposal to charge a fee for allowances allocated from the new source set-aside for EGU's which begin operation after January 1, 2003 which exceeds what the Agency requires to administer the NOx trading program. As proposed, any fee revenue which exceeds the Agency's costs for administering the NOx trading program will be distributed to existing EGU's; this effectively results in new EGU's being forced to subsidize the operations of their competitors in what is supposed to be a free market for wholesale electrical power. It is our contention that it is unreasonable and unfair to place such a disproportionate cost burden on new sources. The legislation allows, but does not mandate, fees for new source allowances. We urge to Board to reject this part of the Agency's proposal, or to at least limit the fees to a level commensurate with the Agency's administrative costs.

Another concern we have is that the Agency's proposal encourages continued operation of old, comparatively inefficient EGU's because allocation of allowances is based on historic heat input rather than either future heat input or net electric output. A much more environmentally friendly approach would reward energy efficiency by basing the allocation of allowances on net generation or adjusting the allocations for net heat rate, so that comparatively efficient EGU's would receive more allowances. This would cause less reliance on older units and greater reliance on newer units, and would result in lower aggregate emissions of not just NO<sub>x</sub>, but particulate matter, carbon monoxide, sulfur dioxide, VOM, and carbon dioxide, as well.

We believe these two changes will result in a more equitable and environmentally sound program for limiting NO<sub>x</sub> emissions from electrical generating facilities.