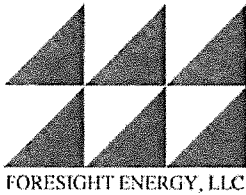


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STATE OF ILLINOIS
Pollution Control Board

PC# 2000



September 24, 2013

**Re: Air Variance Request - Illinois Power Holdings, LLC, Ameren Energy Medina Valley Cogen, LLC, and Ameren Energy Resources, LLC as Co-Petitioner v. IEPA
Case No.: PCB 2014-010PC**

On September 17, 2013, Michael J. Beyer, President and CEO of Foresight Energy, spoke at the public hearing of the Illinois Pollution Control Board regarding the petition for variance by Illinois Power Holdings and Ameren Energy (see Attachment A). These comments are intended to supplement the comments made at the public hearing.

Prior to Beyer's testimony, the decision by the Board had been characterized as a decision between jobs and the environment. Foresight's proposed solution creates a win-win situation for all parties: preserves jobs at the power plant, increases jobs in the Illinois coal industry, improves the environment and potentially reduces the cost of electricity for Illinois consumers. As stated in its testimony, Foresight recommends that i) the variance be denied, ii) the scrubber be built at Newton upon the originally agreed timeline, and iii) Foresight fund the remaining construction. Alternatively, Foresight reiterates its offer to acquire the assets and build the scrubber.

Foresight Energy is the largest coal producer in the state of Illinois with over 3.0 billion tons of coal reserves which it has developed with four mining complexes. Since 2005 it has invested nearly \$2.0 billion in these coal mines and related transportation infrastructure. Foresight employs over 700 employees at its mines and supports more than 2,000 additional jobs in supporting industries. Foresight is a privately held company whose principals have the financial wherewithal to fund the completion of the scrubber and have prior experience owning and managing power plants.

Foresight's proposed solution represents a better chance to keep the acquired plants operating and preserve the hundreds of jobs at those plants. Once the Newton plant is scrubbed, the emissions from the three scrubbed plants will be significantly reduced compared to Dynegey's proposal even burning high sulfur Illinois coal. Since the scrubbers operate at 99% efficiency, according to testimony at the hearing, the sulfur emissions burning Illinois coal with 3.5% sulfur will be 0.035% compared to burning Wyoming coal with 0.25% sulfur content. The lower sulfur emissions at Newton will enable the fleet of five plants to better meet the overall sulfur limit increasing the chance that the unscrubbed units remain operating. Further, it improves the

chances of the Newton facility continuing to operate after implementation of new federal EPA environmental restrictions.

The alternative suggested by Foresight would not only preserve the hundreds of jobs at the plants, but also increase the demand for Illinois coal and increase employment in the Illinois coal industry. In 1990, Illinois had over 10,000 coal miners compared to approximately 4,200 today. The decline in employment can be directly attributed to the passage of the Clean Air Act Amendment in 1990 which significantly reduced the sulfur emissions at power plants. This reduced the demand for high sulfur Illinois coal by Illinois power plants as they switched to lower sulfur coal from Wyoming rather than install scrubbers. As a result, of the 55 million tons of coal burned by Illinois generators today, less than 5 million tons of coal is mined within the state. So, Illinois electricity is created by Wyoming coal and paid for by Illinois consumers. In fact, Foresight sells more coal to China and India than it does to electrical generators in the state of Illinois. By installing the scrubber at Newton and switching to Illinois coal at Coffeen, Duck Creek and Newton, demand for Illinois coal would grow by more than 8 million tons per year and 900 coal mining jobs and 2,700 supporting jobs would be created.

The environment would benefit as well. The most identifiable benefit is the reduced SO₂ emissions at Newton. As mentioned earlier, and at the hearing, scrubbers remove 99% of the sulfur dioxide emissions from power plants. The sulfur emissions would be significantly reduced compared to leaving the unit unscrubbed and burning Wyoming coal. A less obvious benefit is the reduction in carbon emissions. Wyoming coal is hauled over 1,100 miles by rail to Ameren's Illinois plants. The carbon emissions associated with the delivery of the coal would be significantly reduced as the source of the coal in Illinois would be from mines that are often less than 10 miles from the plants. Further, as the coal mined in Illinois is from underground operations, the mining of the coal would also reduce carbon emissions. Coal in Wyoming is mined in large deep surface mines which utilize numerous large diesel trucks and shovels creating large amounts of carbon emissions compared to underground mining.

The consumers of electricity could also benefit from lower cost electricity over time. By not installing the scrubbers, Dynegy limits itself to a single source of coal from Wyoming. This coal has a lower heat content than Illinois coal which means that the plants need higher volumes of coal compared to Illinois coal. All that coal needs to be hauled over 1,100 miles. The cost of that transportation plus the low heat content makes the delivered cost of Wyoming coal higher than the delivered cost of coal from Illinois, on a delivered BTU basis. That is why Foresight believes that it can fund the scrubber installation. By entering into a long term coal supply agreement, the scrubber funding can be embedded in the cost of the coal and still keep the price of the coal attractive compared to coal from Wyoming. Further, by limiting the sourcing of the coal, Dynegy also exposes its customers to single state coal source risk. Changes that affect Wyoming markets will directly impact the cost of the coal prices. In a publication dated Friday September 20, 2013, Doyle Energy Consultants stated that they expect Wyoming coal prices to spike by 50% in 2015 compared to prices today. That would materially impact the cost of electrical generation in Illinois. By installing the scrubbers, Dynegy opens up the coal sourcing options for its plants to numerous coal producing regions including coal from Wyoming, Illinois, Kentucky,

Indiana, Utah and Colorado thereby reducing the risk that price spikes in a particular region will affect its generating costs.

After the hearing on September 17, 2013, Dynegy responded publicly to Foresight's suggested plan by asserting that the burning of Illinois coal was not operationally, commercially or financially feasible. This is not accurate as the plants that Dynegy is acquiring were designed to burn Illinois coal, and prior to the passage of the Clean Air Act Amendments, burned coal produced from the state of Illinois almost exclusively. They assert that they tried to burn Illinois coal but the test failed and resulted in costly repairs. Again, this comment is not correct. The test that took place was at the Coffeen plant and not the Newton plant where the scrubber is proposed. Further, the test at Coffeen was a small test that was flawed and was stopped as the Dynegy acquisition was announced. Illinois coal certainly works well in Illinois coal fired plants.

To assert that coal from Illinois was analyzed from a financial standpoint is also not accurate since no widespread Requests For Proposals (RFP) for coal or transportation were issued as part of the analysis thereby making it impossible for Dynegy to know the cost of the various solutions. It is typical in the power generation industry to issue RFPs from suppliers of coal and transportation services. This enables the power generator to access a broad market spectrum and opportunistically take advantage of relative differences in producers and transportation companies positions. It enables them to gain knowledge about supply arrangements that might not be available from other public sources of information or private conversations from single suppliers. To assert that they could properly analyze the various options without a competitive bidding process is not true.

The bottom line is that hurdles or problems exist in structuring any potential transaction. For example, Dynegy stated that several rail transportation agreements exist that would make switching to Illinois coal expensive. A potential alternative might be used to mitigate existing rail contract terms. For example Dynegy might negotiate an assignment to another power plant, or require Ameren to retain the contract, or embed the liquidated damages associated with the contract commitment to the costs under the new Foresight contract.

Finding obstacles or excuses is easy – the challenge is to find solutions. Foresight has proposed a win-win, viable solution that benefits many. The best solution for the power plants and the associated jobs, the Illinois coal industry, the environment and the Illinois electricity consumer is to deny the Petitioners request.

**Illinois' Pollution Control Board Hearing
Petition for Variance
Illinois Power Holdings and Ameren Energy
September 17, 2013**

I am Michael Beyer, President and CEO of Foresight Energy, Illinois' largest coal producer and one of the state's largest consumers of electricity.

Since 2005, we have invested almost \$2 billion developing four large scale mining operations – creating more than 700 Illinois coal mining jobs and more than 2,000 jobs in supporting industries. This is just the beginning for Foresight because we can create more jobs to support greater demand for our local coal.

Working together, we have the opportunity to reverse a troubling employment and energy consumption trend. Today, Illinois consumers are spending hundreds of millions of dollars supporting jobs in Wyoming because the 1990 Clean Air Act Amendment created a market for their coal in Illinois and stopped the burning of Illinois coal in the state. So, Illinois electricity is created by Wyoming coal and paid for by Illinois consumers. The good news is that by installing scrubbers we can turn that around.

Today, Foresight Energy sells more coal to India and China than we sell to electrical generators in the state of Illinois. We'd like to do both and in the process get more folks in Illinois back to work, improve the air quality now and reduce the costs of electrical generation in this state. The Petitioner's plan is to burn coal at the plants with coal imported from the state of

Wyoming. That's over 1,100 miles of carbon emissions on each train load combined with the sulfur dioxide emissions that the granting of this variance would send into the air. We can do better.

The first step is to deny the Petitioners request for a delay in the compliance time line and install scrubbers on the Newton facility so that it can burn Illinois coal. That also means not postponing the benefits of those scrubbers – a reduction in system wide SO₂ emissions and carbon emissions from transportation.

Foresight Energy has not escaped the difficult economy, so Dynegy's assertions of funding shortages to complete the scrubber installation resonate with us. That said, let me propose that Foresight Energy provide funding for the completion of the scrubber at Newton and recoup the investment with an embedded cost in a long term coal supply agreement. Our analysis shows that even with this embedded cost in the coal price that the delivered cost of our coal should be lower than the current delivered cost and the current market price of imported Wyoming coal. Alternatively, Foresight Energy would be willing to assume Dynegy's role in the proposed acquisition, acquire the assets as structured and construct the scrubbers.

In either transaction, Foresight Energy is willing to fund a solution that will keep all the plants open, support job growth in the Illinois coal industry, advance the cause of cleaner air – now and in the future -- and lower the cost of electrical generation for Illinois. Therefore, we ask that the Petitioners request be denied.

