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The Alpena News

To the Editor:

I am writing to respond to your recent criticism of the Commission staff's analysis of the projected costs of Wolverine Power Cooperative's proposed 600 MW power plant. Wolverine, in a filing in the Commission, estimated that the overnight cost of the plant would be \$2,484/kW. The staff analysis determined that this proposed cost was significantly underestimated; conservatively estimating the plant's overnight cost to be \$3,000/kW. An overnight cost figure is what it would cost if a plant were built immediately "off the shelf" – but plants typically take years to construct. When factors such as interest rate, inflation, construction material, cost increases and other management costs are factored in, the MPSC staff estimated that the Wolverine plant would cost at least \$3,800/kW, which would place an excessive cost burden on ratepayers (a utility bill increase of \$76.95 per month for the average customer).

According to Synapse Energy Economics, "it would have been more reasonable for Wolverine to use a CFB coal plant cost of \$3,500/kw to \$3,800/kw in its economic analyses." Synapse noted that coal power plant construction costs have risen dramatically as a result of a worldwide competition for design and construction resources, equipment, and commodities like concrete, steel, copper and nickel. As a result, coal-fired power plants that were estimated to cost \$1,500/kW in 2002 are now projected to cost in excess of \$3,500/kW.

Similarly unrealistic cost estimates are being struck down in other states with the result that proposed costs are capped. As recently as May 14, 2010, the Arkansas Supreme Court overturned that state's Public Service Commission's issuance of a Certificate of Environmental Compatibility and Public Need (CECPN) for the AEP SWEPCO Hempstead/Turk proposal to build a 600 MW plant at a 2005 estimate of \$2223/kW, stating that "no one seriously maintains that the original cost estimate of \$1.334 billion made in 2005 is close to what the cost will ultimately be," and that "[t]he price tag, as noted, could quickly reach \$3 billion and more." The court also noted "that the imminent regulation of carbon dioxide will cause the cost of the coal-fired plant to soar."

It is well documented that cost estimates have been increasing significantly for other proposed coal-fired power plants around the nation (and within Michigan):

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The estimated per unit construction cost of Duke Energy Carolina's Cliffside Project increased by 80 percent between the summer of 2006 and June 2007.

Similarly, the estimated construction cost of the Karn-Weadock advanced supercritical pulverized coal plant, proposed by Consumers Energy, increased from \$2,765/kW in 2007 to \$3,589/kW in January 2009, which represents a 32 percent increase. Consumers Energy recently announced the indefinite deferral of this project because it was unnecessary to meet projected demand in Michigan and because there is an overcapacity of affordable electricity supply in the Midwest.

The October 2008 Feasibility Study Update for the American Municipal Power Generating Station Project in Ohio estimated its project would cost \$3,257/kW on an overnight basis. This figure was the result of a competitive bid process by potential project managers. Subsequent increases in estimated costs caused the project to be cancelled.

Wisconsin Public Service Commission staff submitted testimony containing cost estimates in Docket 6680-CE-170 of \$3,600/kW for a proposed coal plant which was eventually rejected by the Wisconsin Commission for being too costly.

In a study submitted to the MPSC by the Holland Board of Public Works this spring, well regarded energy analysts Black and Veatch estimated that a coal plant with two 300 MW CFB units, exactly what Wolverine proposes, would cost \$3,400/kW to construct.

Overall, Wolverine's cost estimate of \$2,484/kW is significantly out of alignment with current documented costs of constructing new coal-fired baseload plants. Wolverine is essentially indicating that they can construct and operate a coal plant at a significantly lower cost than utilities around the country who have more experience building and operating power plants. Michigan is not alone in its desire to protect ratepayers from the excessive increases to their utility bills that would be experienced if such a proposal were to move ahead.

Very truly yours,

Orjiakor N. Isiogu, Chairman
Michigan Public Service Commission