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**Comments Submitted by Earnie Lehman  
To the Senate Utilities Committee  
Concerning Costs and Effects of Complying with EPA regulations**

January 18, 2012

Mr. Chairman and members of the Committee, thank you for the opportunity to provide Midwest Energy's perspective on the effects of myriad new and tightened EPA regulations on our electric customers. I am Midwest's President and General Manager. Midwest Energy is a customer-owned gas and electric utility serving 91,000 retail customers in 41 counties of central and western Kansas. We provide wholesale electricity to 8 municipalities and transmission service to other cooperatives. We are deeply concerned with the potential impact of issued and planned EPA rules concerning electric generation and related matters.

Midwest Energy does not own any coal-fired generation, though we do have agreements to purchase the output of such generation from Westar on an intermediate to long-term basis. In 2010 we obtained approximately three quarters of our electricity from Westar's coal-fired generation, principally from the Jeffrey Energy Center under a participation power agreement. About a tenth of our energy was wind-generated and the rest was mostly gas-generated. Accordingly, emission limits on Westar's coal-fired generation, particularly Jeffrey, carry through to our customers. We are now keeping track of our pro-rata share of Jeffrey emission allowances and will have the ability to make up for any future shortfall independent of Westar should we choose to.

We have long-believed that energy efficiency and load management are the most cost-effective ways to meet the growing needs of our customers. This is why we were able to control about 3% of our retail peak load in 2011 and are shooting for about 6% this summer. It's also why so far we have retrofitted almost 700 homes and businesses through our award winning How\$mart<sup>®</sup> program. But even with industry-leading energy efficiency programs and certified energy auditors on our staff, Midwest Energy is still growing by 2-3% per year. As Kansas baseload generation capacity again becomes fully-utilized with the hoped-for economic recovery, Midwest Energy may be forced into building more of its own small-scale gas fired generation or securing energy from other states such as Nebraska, if

possible. Any threat to the continued viability of existing coal-fired generation is far worse than shooting oneself in the foot, it is cutting the foot off.

In addition to concern about the CSAPR, recently finalized rules for new types of non-greenhouse gas emissions like mercury and proposed rules for greenhouse gas emissions all add up to a trainwreck. I have worked with and for electric utilities since 1976. Never before have I seen so little concern for the economic and reliability impacts of regulation on the customer at the end of the line.

Westar has provided us with the predicted impact of CSAPR emission limits on our ability to take energy from Jeffrey. We don't have an estimate of what the cost will be to make up that energy elsewhere, if possible. We defer to Westar with respect to estimates of additional capital costs at Jeffrey and the rest of its coal-fired fleet that will be need to assure continued compliance. We are delighted the day of reckoning has been postponed, at least until late spring or summer due to the recent court injunction. The remainder of my remarks is a more expanded discussion of the how we see our costs rising and threats to the reliability of our service increasing.

There are at least two substantial categories of risks associated with the new regulations promulgated by the Environmental Protection Agency related to emissions from power generating facilities:

1. Risk of rapidly rising costs of energy production due to increased capital investment. While there is not yet a lot of information available as to the cost of required emission control equipment at coal-fired generating facilities in particular, and to a lesser extent at gas-fired facilities, it is clear that the required investments will be significant.

These costs will manifest themselves in a variety of ways:

- a. Increased capital investment at existing generating facilities to maintain current output: This will, by necessity raise the costs that owners will have to recover from their customers, be they retail or wholesale customers.
- b. Increased capital investment at existing generating facilities in order to add new capacity: Any effort to expand capacity at a facility will be blunted by the increased emissions investment, and raise the overall cost.

- c. Increased capital investment at existing generating facilities to minimize the amount of capacity derating required: In some cases the output of a plant may be derated with the addition of new emission control equipment. This leads to rapidly rising capacity costs when the capital investment goes up and the resulting capacity goes down.
  - d. Increased operating costs: Regardless of the scenario that leads to increased capital investment, most, if not all, available technologies required to meet the new standards also have the effect of increasing the operating costs of a generating facility, generally by reducing its thermal efficiency. That can only be recovered from the ultimate consumer.
2. Risk of transmission disruptions by accelerated deployment of emissions control equipment:

The new regulations were developed, including the implementation timing, with no regard for the impact on the overall bulk power system. The EPA disregarded industry concerns related to the availability of generating capacity in some areas of the country, and the congestion on the bulk electric transmission system throughout the country.

In regard to the transmission system, it is anticipated by many utilities, and backed up by studies conducted by the regional transmission operators (including the Southwest Power Pool) that the required rapid deployment of the new emissions control equipment will add to the strain on the transmission system, including but not limited to the following potential impacts:

- a. Outages at generating facilities are likely to be extended, removing valuable resources from the grid. For decades the utility industry has relied on the ability of the transmission system to move large amounts of energy across distances to connect remote resources to load. This is particularly true when a generating unit is unavailable, shifting the burden to other units. Increased congestion on the network, and federal policy that resulted in the isolation of the generation and

transmission functions at the operating level, has made it increasingly difficult for grid operators to manage outages

- b. Outages at multiple generating facilities will likely overlap because of the short available time frame in which to complete these installations: The risk here is similar, but arises because the time frame in which environmental upgrades can be completed is so short. Generating units will have to be down for extended periods for the installation of new equipment, and these outages will have to involve more than one plant at a time. With multiple concurrent generator outages, the transmission system will be asked to move larger amount of energy over greater distances to deliver it to the load. Even with a large percentage of the generation fleet available the transmission system is often stressed. Removing generating resources for extended periods of time will only exacerbate the problem, leading to an increased potential for overloads, voltage issues, and perhaps threatening the need for curtailments or the incidence of widespread outages.

In summary, a rush to install ill-conceived emission control equipment could ultimately lead to more outage events, further reducing economic output in the commercial, industrial and manufacturing areas at a time when the economy is already somewhat fragile. Whether one believes in the need for the emissions controls, it is difficult to argue that the timing requirements of the new regulations have any basis in reality. The reliability and economic impacts of a rush to install the emissions equipment, while difficult to quantify or estimate at this juncture, will be real and significant.

I would be pleased to provide supplemental information to the Committee if that is desired. Thank you for raising this important issue.