



AEP IGCC

Workshop on Gasification
Technologies

June 28-29, 2006

Bismarck, ND

Judy Jones

Commissioner

Public Utilities Commission of Ohio



- March 18, 2005. OHP and CSP (AEP) filed application for approval of a mechanism to recover costs associated with construction and operation of an IGCC generation facility in Ohio



- Necessary to allow companies to provide a firm supply of generation service to AEP's Ohio customers and to customers who have not selected a competitive retail electric service provider and to returning customers



- Proposed facility will allow companies to meet respective obligations as provider of last resort
- Proposal to recover costs of facility in three phases



Phase I

- Pre-construction Costs
 - Engineering
 - Procurement and construction contract
 - Scoping
 - Commence in January 2006
 - Surcharge applied to standard service offer rate schedules
 - Net over- or under recovery applies to CWIP during Phase III



Phase II

- Carrying costs on cumulative investment
 - Carrying costs deferred after contract is executed
 - Commence July 2006
 - Applied to standard service offer



Phase III

- Operating life of facility
- Actual capital costs
- Carrying costs
- Operating costs, including fuel and consumables
- IGCC Recovery Factor and Adjustment Factor
- Return and return on investment



STAFF POSITION

- Need for investment in new clean coal technology
- Value of IGCC for hedging strategy
- Use of most abundant energy resource while providing option to deal with long-term environmental demands



STAFF POSITION, Cont.

- Advance commercialization of IGCC technology
- Reduce emissions of nitrogen oxide, sulfur dioxide, carbon dioxide, particulate and mercury.
- Designed to incorporate carbon sequestration equipment in the future
- Direct economic and environmental benefits to Ohio
- Significant secondary benefits



COMMISSION ORDER

- Recognize as a Regulatory Mechanism
- Long Term Reliability
- Security for POLR
- Defer companies request for a cost recovery mechanism for proposed Phase II and III to next proceeding
- Submit in this case additional detailed information



COMMISSION ORDER, Cont.

- Regulation of plant – retail generation not regulated





COMMISSION ORDER, Cont.

- **Provider of Last Resort (POLR)**





COMMISSION ORDER, Cont.

- Economic and technological advances are beneficial for environment, the state of Ohio, the region and the nation.
- Recognized Attributes to view IGCC facility favorably
- recent volatility of natural gas prices
- environmental costs of pulverized coal generation facilities
- age of generation fleet in Ohio
- likelihood of carbon sequestration legislation implementation
- lead time required for generation facility
- life-cycle of generation facilities



COMMISSION ORDER, Cont.

- AEP should economically justify:
 - construction choices
 - technology choices
 - timing
 - financing structure
 - various other matters



COMMISSION ORDER, Cont.

- Approval of PHASE I
- By-passable
- Tracked so as to reduce total additional generation increases the company may request under the RSP



HOWEVER:

Reasonable costs to develop that plan and supporting analyses is recoverable as a proper cost of providing distribution service.



To address in next phase

- Details of how output of proposed facility would flow to the benefit of Ohio customers;
- Delineation of means through which Ohio coal would be used in the project;
- Multiple issues concerning production and sale of by-products;



More yet to come

- Pursue financing opportunities available under EPC Act – companies directed to develop a proposal to obtain federal, state and other funding and/or tax incentive available to construct, operate and maintain the facility; and,
- Companies consideration and evaluation of investors in the proposed facility