

# **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



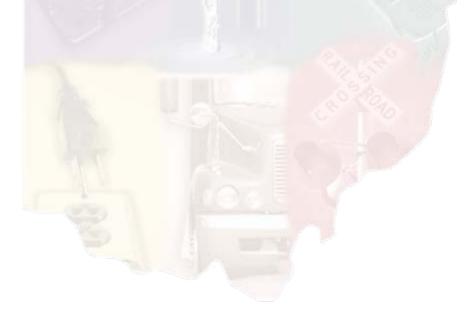
 Regulation of plant – retail generation not regulated



- Distribution
- Ancillary Services



## Provider of Last Resort (POLR)





- 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



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



- 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 <u>distribution</u> 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 EPAct – 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