

Southern Indiana Gas and Electric Company, Inc. (SIGECO)
Clean Air Act Civil Settlement
June 2003

Overview: On June 6, 2002, the U.S. Environmental Protection Agency and the Department of Justice announced a Clean Air Act (CAA) settlement with the Southern Indiana Gas and Electric Company, Inc. (SIGECO) to resolve Clean Air Act violations at SIGECO's F.B. Culley coal-fired power plant (Culley Station).

Under the settlement, SIGECO will spend approximately \$30 million between now and 2007 to install state-of-the-art pollution controls to meet stringent pollution limits. The agreement requires SIGECO to install and/or upgrade state of the art air pollution controls at two of the Culley Station units, and elect to shut down a third unit or repower the unit with natural gas.

Approximately 10,600 tons of SO₂ and NO_x emissions annually will be reduced from three coal-fired electricity generating plants in southern Indiana. In addition, SIGECO will retire pollution emission allowances that it or others could use to emit additional pollution into the environment. SIGECO will also spend \$2.5 million to fund an environmentally beneficial project to the Culley Station to reduce sulfuric acid, and pay a civil penalty of \$600,000.

Background: This settlement is the latest in a series of cases to bring the coal-fired power plant industry into full compliance with the New Source Review requirements of the Clean Air Act. The SIGECO settlement resolves one of the first litigated cases arising from the nationwide Power Plants Initiative that commenced in November 1999 with the filing of complaints by EPA and the Department of Justice against SIGECO and seven other coal-fired electric generating plants under the Prevention of Significant Deterioration (PSD) provisions of the Clean Air Act. The Justice Department, on behalf of EPA, brought legal actions against dozens of coal-fired power plants controlled by American Electric Power, FirstEnergy, Illinois Power, SIGECO, Cinergy, the Southern Company, and TECO. This settlement with SIGECO will allow for a stay of a July 2003 trial on that particular lawsuit. Except for TECO, settled in February 2000, the other lawsuits continue, as do the EPA's enforcement efforts against the Tennessee Valley Authority (TVA) – a federal agency that owns and operates many coal-fired, electric generating plants.

Clean Air Act Violations: Based on information received from the company, EPA alleged SIGECO violated the Clean Air Act by significantly modifying its Culley Station facility, and increasing its pollution output, without first applying for a Clean Air Act permit and taking steps to reduce increased emissions.

Environmental Benefits of the Settlement: This settlement requires SIGECO to install state-of-the-art air pollution controls on two units at its Culley Station plant and to elect to repower another unit with natural gas or retire that unit. The controls and election to repower or retire will result in the removal of approximately 6,400 tons per year of SO₂ and 4,200 tons per year of NO_x. SIGECO will also retire excess SO₂ emission allowances from its Acid Rain allocations for the Culley plant each year beginning with calendar year 2004.

NO_x: Nitrogen Oxide (NO_x) causes a variety of health and environmental impacts, such as ground-level ozone, acid rain, particulate matter (PM), global warming, water quality deterioration, and visual impairment. Nitrogen oxide plays a major role, with volatile organic chemicals, in the atmospheric reactions that produce ozone.

SO₂: High concentrations of sulfur dioxide (SO₂) affect breathing and may aggravate existing respiratory and cardiovascular disease. Sensitive populations include asthmatics, individuals with bronchitis or emphysema, children and the elderly. Sulfur dioxide is also a primary contributor to acid deposition, or acid rain.

PM: Health effects of PM include premature death, increased hospital admissions and emergency room visits, increased respiratory symptoms and disease, decreased lung function, and alterations in lung tissue and structure and in respiratory tract defense mechanisms. Particulate matter also is the major cause of reduced visibility in many parts of the nation.

Settlement Terms:

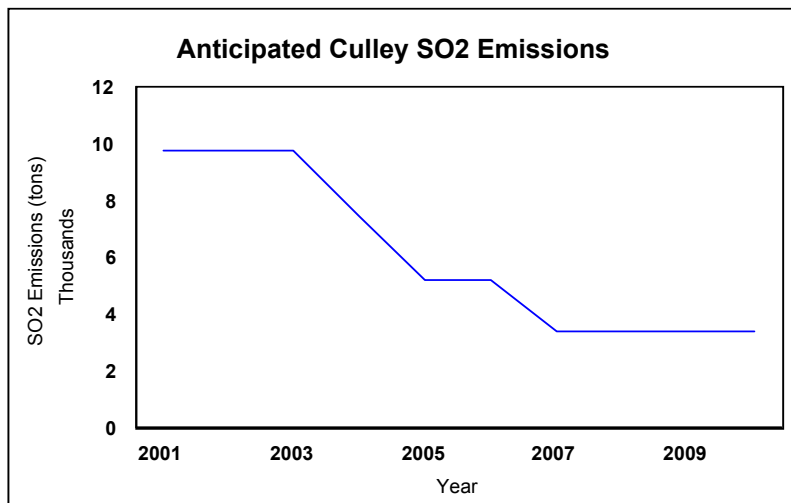
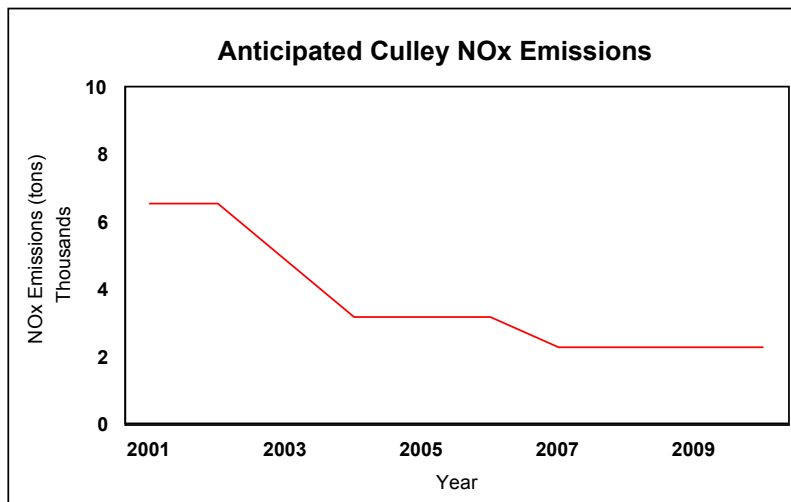
Injunctive Relief: SIGECO will spend an estimated \$30 million over a 4 to 6-year period to implement the following injunctive relief:

- Reduce emissions of SO₂ from about 9,800 tons per year to about 3,400 tons per year through the upgrade and continuous operation of state-of-the-art SO₂ control technology at two of its units. In addition, SIGECO will either retire or repower with natural gas and state-of-the-art pollution controls a third unit. In addition, SIGECO will surrender excess SO₂ emission allowances each year beginning in 2004. This surrender will prevent SIGECO and others from using these allowances to emit additional pollution into the environment.
- Achieve 4,200 tons of NO_x reductions annually from SIGECO coal-fired plants by operating a new state-of-the-art selective catalytic reduction control system all year long, on the largest unit at the plant. In addition, SIGECO will either shut down a second unit or repower that unit with natural gas and install a state-of-the-art selective catalytic reduction system.
- Install a state-of-the-art Baghouse at the largest unit by 2007 to reduce emissions of PM by an estimated additional 200 tons, as well as optimize current PM controls at all three units to control PM emissions on all units in the interim.

Environmental Projects: Under the settlement SIGECO agreed to spend at least \$2.5 million for an environmental project, the Sulfuric Acid Reduction Project, at the Culley Station. The Sulfuric Acid Reduction Project is designed to reduce the SO₃ (sulfuric acid) content in flue gas at the plant's largest unit. Sulfuric acid is very corrosive and irritating and can cause direct local effects on the skin, eyes, and respiratory and gastrointestinal tracts when there is direct exposure in sufficient concentrations. In addition, emissions of sulfuric acid has been related to the formation of fine particulate matter. Fine particulate matter is most closely associated with such health effects as increased heart and lung disease, increased respiratory symptoms and

disease, and decreased lung function. If the Project is successful, SIGECO must continue to operate the installed control equipment through at least December 2010.

Civil Penalty: SIGECO will pay a \$600,000 civil penalty.



Source: Office of Enforcement and Compliance Assurance, U.S. EPA, June 3, 2003