

CHICAGO CITY COUNCIL

MIDWEST GENERATION TESTIMONY BEFORE

JOINT COMMITTEE ON HEALTH AND ENVIRONMENT

APRIL 21, 2011

Testimony of Douglas McFarlan, President, Midwest Generation

Chairman Rugai, Chairman Balcer and committee members. My name is Doug McFarlan, and I am the president of Midwest Generation with offices here in Chicago. I'm pleased to have this opportunity to speak with you about the serious public policy and jobs implications of the so-called Clean Power Ordinance.

I joined Midwest Generation in 1999 when our parent company, Edison Mission Group, of Santa Ana, California, acquired six coal-fired power plants in Illinois, including the Fisk and Crawford stations in Chicago. Prior to that, I had served in a variety of policy and regulatory positions with Chicago telecommunications company Ameritech, now a part of AT&T.

I also serve as a senior vice president of Edison Mission Group and am pleased to be joined today by our Edison Mission President, Pedro Pizarro, who you will hear from next.

Also with me on this panel to oppose this ordinance are Dean Apple, president of Local 15 of the International Brotherhood of Electrical Workers, and Brenda Brock, station director at Fisk and Crawford. We also are joined by Dr. Peter Valberg, a principal at Gradient, an environmental and risk science consulting firm based in Cambridge, Massachusetts.

Our management and labor team is here today to express the strongest possible opposition to this ordinance. The issues it raises certainly are serious, but they are being addressed by the U.S. and Illinois Environmental Protection Agencies and through work that has been ongoing at Fisk and Crawford for several years.

Because of that activity, the only real-world impact of this ordinance would not be environmental – it would be economic, risking 200 jobs at the stations, hundreds of thousands of hours of building and trades work, and the reliability and stability of the electric grid serving the city of Chicago.

I'm going to devote my remarks to addressing several myths and false statements that we have heard from supporters of this ordinance.

On February 22 – Primary Election Day -- we were stunned to see this front-page headline in the Chicago Tribune: "Coal plant cleanups may have to wait," and the on-line version of that story with the heading: "Power company holds off on cleaning up Chicago plants."

Let's be clear. Those statements are false. We have not delayed any work, we have not asked to delay any work.

We have literally led the nation by installing mercury emission controls at the Fisk and Crawford stations in 2008, using a technology we helped develop with the U.S. Department of Energy.

The mercury reductions were achieved under a comprehensive, 2006 environmental agreement we reached with the Illinois EPA. That agreement laid out a blueprint for construction of pollution controls at all of our Illinois plants over a 10-year period.

As part of that plan, no sooner was the mercury work completed than we were well into designing pollution controls to further reduce emissions of nitrogen oxide. Construction work on those projects is ongoing as we speak and will be completed by the end of this year. This new round of work is on top of a 60 percent reduction in these emissions that we achieved within the first three years of owning the plants.

And while that work is in progress, we are well into design and engineering work to further reduce emissions of particulate matter and sulfur dioxide. By 2015, we must either install sulfur dioxide controls at Fisk Station or shut down the unit, with similar requirements for our two units at Crawford in 2017 and 2018.

That's not delay – it's ongoing work for a decade. It is not unusual for projects of the magnitude we're talking about to take 3-4 years from inception to completion. They have to be designed, tested, permitted; we have to procure supplies; we have to contract for labor, and we have to build. These are massive undertakings, and we are doing the work across six plants – plants which also must keep running in order to generate the revenue that pays for these improvements. And, by the way, they also generated the revenue that we used to build one of the largest wind farms in the state of Illinois.

What we have said repeatedly for more than two years is that because of new regulations that are coming from Washington – and uncertainty about how several of those will end up – it is prudent and responsible for our business to let as many pieces as possible fall into place before making final technology and investment decisions.

We made those decisions when we needed to for the mercury and nitrogen oxide controls. Next will come decision points for sulfur dioxide. We will continue to design and engineer those projects, and when it is time to make the major capital investments in construction and labor, we will have to decide whether to proceed with work or retire units. But, again, those decisions will be made within the timeframes established by federal and state regulators. There are no delays.

If we end up making retrofits at all of our plants in the state -- from the start of the mercury controls through 2018 -- we will have spent about \$1.5 billion. We don't do that lightly.

I've heard proponents of this ordinance say they don't want to shut down the plants, just clean them up. First of all, they are being cleaned up. But, secondly, let's listen to these folks in their own words:

From Michael Brune, executive director of the Sierra Club, quote: "Closing these two coal plants is a national priority for the club."

From Medill Reports, this headline, "Protestors rally to shut down Chicago's coal plants." And from that story, "This is the year we're going to end coal in Chicago," said Chicago author Jeff Biggers.

From Henry Henderson, director of the Midwest Program of the Natural Resources Defense Council in a blog on Huffington Post, "Mayor Emanuel will have the opportunity to lead the city forward by assuring that the necessary work has been done to allow Fisk and Crawford to be closed."

From Edyta Sitko, a field organizer with Greenpeace, "The mayor's green legacy depends on whether he closes down these plants."

From Bruce Nilles, national director of the Sierra Club's Beyond Coal campaign, as quoted in The Chicago Reader, "We are gearing up to run a 30-state program to shutter old coal plants... Regionally, we need to pull coal out of the energy mix." And from that same article in The Reader, this passage, "National clean-power advocates say Chicago could be a role model to show other cities how they can take the initiative in shutting down plants."

Ordinance supporters also have publicized a Facebook page titled "Help close the Fisk and Crawford power plants."

Those sound like unequivocal statements of people who want these plants shut down -- regardless of what they may tell you in other settings.

We've also heard the charge that our plants aren't regulated or are grandfathered from regulation. This is false.

In March alone, the USEPA released nearly 1,500 pages of newly proposed air and water regulations that our plants – and all other power plants in the country – must meet. And there are more regulations coming out of Washington this summer.

I've also heard that the city needs to act because Washington isn't. Once again, patently false. By any measure, the Obama Administration – an Administration that enjoyed overwhelming support from environmental activists when they took office -- has been more ambitious and aggressive than any Administration in history in developing stricter environmental regulations. That's not a complaint, it's a fact, and we are dealing with it.

Supporters also have said the ordinance addresses pollutants that are not covered by the federal government or state of Illinois – particulate matter and carbon dioxide, or greenhouse gases. False, yet again.

Our operating permits already have limits on particulate matter, and on March 16 the USEPA released proposed rules to tighten those limits significantly. USEPA has also announced that in July, it will release a second set of regulations for carbon dioxide, greenhouse gas emissions that will impact existing coal-fired plants.

This is the agency charged by the federal Clean Air Act with developing environmental regulations to protect the public health in every state, city and neighborhood in this country. They go through a comprehensive process that anyone in this room can participate in. They draft rules, take public comment over a period of 2-3 months, finalize those rules, and then allow sufficient time for implementation. Three years lead time from finalizing a rule to implementation is not unusual because they recognize the time required and the need to stagger work across plants so that we maintain grid reliability.

I've also heard that Fisk and Crawford aren't needed because the electricity they produce is sold out of state and because ComEd is building a new transmission line in the city. Let's be clear – the power produced by the men and women at these stations supports reliability and stability of the electric grid in Chicago. The financial contracts for that electricity may come from anywhere in a 13-state regional power pool, but power from these plants supports the grid physically in this city. Electrons produced locally support the local, physical grid regardless of who is purchasing them financially. And we do also have sales directly to ComEd.

As for ComEd – yes, they went to the Illinois Commerce Commission last year and were granted approval to build a new transmission line in the city. And, yes, they said part of the reason they wanted the new line is because there is an uncertain, long-term outlook for Fisk and Crawford. As I described a moment ago, while we have largely completed two phases of additional upgrades at the plants, we are coming up on another round of decision points for future investments.

But let's look at what else ComEd said, and I quote from their ICC testimony:

“All three units (at Fisk and Crawford) provide important support to ComEd's transmission system serving Chicago's Central Business District.” And then later in that testimony, “Even if the Fisk and Crawford stations were not retired for some years after the transmission reinforcements are completed, the addition of the new lines would protect the reliability of the Central Business District ... and would otherwise make more electric sources available to serve load in the Central Business District... this makes good operating sense and would bolster the system, increase operating flexibility... and strengthen the system to provide for continued expansion of the central business district.”

Those words certainly suggest to me that as long as they operate, Fisk and Crawford will play a role in contributing to reliability of the Chicago grid and helping us avoid the catastrophic blackouts experienced in the central business district in the '90s.

Finally, it has been our position since the ordinance was introduced that it is physically impossible to comply with. Here's why. It sets particulate matter limits that must be met at Fisk within one year and at Crawford within two years.

Remember that the USEPA has already released stricter limits on particulates, but note also that they are looking at 2015 implementation because they know it takes that long to build the controls that are required.

The ordinance also sets carbon dioxide, greenhouse gas limits that cannot be achieved at an existing coal plant with commercially available technology. Only a plant powered by natural gas could do that. Perhaps ordinance proponents are proposing that the city enable us to finance a conversion to natural gas with a power purchase contract that would be required to support a \$600 to \$800 million construction project. That isn't what we've heard, but that's what it would take, and that's a different conversation.

Let's also remember that USEPA will be releasing proposed greenhouse gas standards for existing plants this summer -- and their leadership has stated publicly that they are looking at what is technically achievable, which is likely to be improvements in efficiency.

Every environmental issue supposedly being addressed by this ordinance is being addressed by expert agencies under the federal Clean Air Act and by State of Illinois regulations that are as tough as any in the country and tougher than most. The only real impact of this ordinance would be to put jobs and the reliability of the electric grid at risk without any meaningful environmental improvements. I cannot believe that is a course of action the City of Chicago wants to pursue.

TESTIMONY OF PEDRO PIZARRO

PRESIDENT, EDISON MISSION GROUP

Chairman Rugai, Chairman Balcer and committee members, I appreciate the opportunity to meet with you today and express my opposition to this ordinance on behalf of 1,100 men and women who work for our company in Illinois.

At Edison Mission Group we pride ourselves on environmental stewardship, technical innovation, and good corporate citizenship. We led the nation in developing controls for mercury emissions from coal plants. Our nitrogen oxide reductions also are ahead of the rest of the country as federal rules that will largely catch up with Illinois are expected to be finalized this summer.

We also are one of the nation's largest developers of clean, renewable, wind energy with 30 projects in 11 states, the largest of which is in northern Illinois. We have worked with the highly-regarded Electric Power Research Institute to begin researching the economic and technical feasibility of capturing and storing carbon emissions from existing coal plants. Our Powerton Station in downstate Pekin – one of the largest coal plants in the Midwest – is one of five plants in North America that is part of that research.

We have looked to the future and see the potential for reducing demand for electricity at peak periods through what is known as demand side management. This can play a key role in energy and environmental policy. We're proud of our partnership now coming into its third summer with the city of Chicago Department of Environment, Cook County, and the Citizens' Utility Board to make such a program available to condo and apartment high-rise buildings in the city.

This is who we are as a company – a leader in the transition to more renewable and other alternative sources of energy. But as we make that transition, the responsible use of coal is essential to ensuring that our nation, this state and this city have a reliable and affordable supply of electricity. And it will be that way for some time.

Before taking my position as president of Edison Mission Group in January, I had served in several executive positions, most recently as an executive vice president, at our utility affiliate, Southern California Edison. Edison Mission Group and Southern California Edison are the two primary operating companies of our parent company, Edison International.

We believe that our diverse history and expertise as both a utility and a competitive power generator give us unique insights into public policy and into serving customers and communities in a manner that is sensitive to the environment, to consumer rates, and to grid reliability.

I spend a lot of my time with federal policymakers as we seek to be a constructive voice in helping shape reasonable and meaningful environmental regulations.

Let me assure you that our business and our plants are heavily regulated at both the state and federal levels.

Hundreds upon hundreds of pages of new regulations are sweeping over our business this year. We aren't complaining about that – in fact, unlike many of our peers, we aren't trying to stop or delay the regulations that have been released last year or earlier this year.

In many respects, these policies are, indeed, catching up with Illinois and the regulations the Illinois EPA has already placed on us. This makes the proposal for the city to add another layer of regulation all the more troubling.

I'm here from California, but let me make clear that our presence in your city and state has been a dominant force in our business for the 11-plus years since we founded Midwest Generation. In 1999, we set up a major regional office in Chicago to be the hub for managing our coal fleet. The people here operate and maintain those plants. They work within corporate objectives and guidelines, but the people on the ground in Chicago and across Illinois are the face and voice of this company and the men and women running these plants.

They take great pride in their safe operation of our plants, their environmental stewardship, their contribution to a reliable electric grid, and their corporate citizenship.

I know dozens of those employees are here today, and I know some of them hope to introduce themselves and share their views with the committee.

People like Sid Rodriguez, a 36-year employee at Fisk Station and Chicago resident who was raised and attended schools in the Pilsen and Little Village neighborhoods.

And people like Claudia Calderon, who manages community involvement activity for us in Pilsen and Little Village, raises her family in the community, has taught citizenship classes there, and makes sure that our company gives back to the schools, the youth, and the many fine human services agencies.

A big part of giving back is telling our story about what is happening at the plants, and what we are doing to make them safer, cleaner and more reliable. We have an accountability and responsibility to do that with our community partners, and we take that very seriously.

You're going to hear in a few minutes from Dr. Peter Valberg of Gradient consulting, who we brought in to study actual particulate emissions and potential health impacts from our plants. We did not know Dr. Valberg before we commissioned this work – we only knew he came highly recommended as a respected national figure in evaluating air quality impacts.

I made my first Chicago visit as president of Edison Mission a top priority in January. I knew about this ordinance and the efforts by some to shut down our plants here. I wanted to see the neighborhoods near our plants for myself. I wanted to understand the issues here. I wanted to know if our state of Illinois agreement is enough to protect the public. I wanted to know if the unprecedented wave of new federal regulations is enough.

I didn't want it sugar-coated; I wanted to make sure we are living up to our responsibilities to this city and to the Pilsen and Little Village communities to act in an environmentally responsible manner.

I have reviewed Dr. Valberg's and others' work and evaluation of our emissions. I have gone over in great detail the controls we have installed, the controls we are installing, and the additional controls we are now designing. I would not sit before you today and offer this testimony if I had any concern about the impact of our operations in these neighborhoods.

Before closing, let me reinforce a final point. Nothing is being delayed or held off here in Chicago. It was no accident that the Chicago plants were the first in our fleet to get the mercury emission reduction technology we helped develop. More nitrogen oxide reductions are right behind and will be in place in less than eight months. We are well into designing scenarios and options for meeting the federal particulate limits and state sulfur dioxide limits that come next, and, frankly, we also face tough decisions about making those investments or retiring some of our units over time.

This ordinance is an extremely important matter to us. It is part of a national debate over whether we will continue to use coal to generate electricity. As proposed, it seems clear to us that the ordinance is intended to shut down the Fisk and Crawford plants and strike a political blow against the source of half of this nation's electric supply.

Some of the supporters of the ordinance have made no bones about that – they want coal shut down everywhere.

I would suggest to you that this is a dangerous policy, and that the better policy is the one being laid out and implemented today from Washington and Springfield and at the Fisk and Crawford plants.

TESTIMONY OF BRENDA BROCK

DIRECTOR, FISK AND CRAWFORD STATIONS

Chairman Rugai, Chairman Balcer and committee members, my name is Brenda Brock, and I am the director of the Fisk and Crawford stations. I have worked in plants in the Midwest Gen system for more than 20 years, going back to the time when they were owned by ComEd.

We have three top priorities when we come to work every day – first is that we always work safely; second is to operate in compliance with environmental and all other regulations, and third is to provide for a reliable supply of electricity.

I am especially pleased to tell you that our Fisk Station now has gone more than 500 days without an injury, Crawford more than 100 days, and both plants are performing more reliably in 2010 and this year than we have seen for several years.

They've also never been cleaner inside and out, and their emissions profile has never been lower.

I want to thank the 200-plus employees from Fisk and Crawford and the other Midwest Generation plants and offices in Illinois who came to today's hearing to register their opposition to this ordinance and protect their jobs. I don't know if all of them were able to make it into the room -- you can tell who most of them are by their work uniforms and hardhats.

This is a very big deal to these people. We understand that we have a responsibility to the community and our society in the way we run these plants. We are proud of what we do to help keep the lights on, and to make our operations safer and cleaner.

We respect that officials such as you must and should take air quality issues seriously – so do we.