

# **Modern Pollution Control Equipment for Old Coal Plants – Financing Issues**

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# THREE KEY POINTS

- 1. Financially healthy utilities and independent power producers can finance pollution control investments. It's a matter of the price that the bank extracts.**
- 2. These investments will drive up capital costs and may not be economic in a competitive wholesale market in which there will be both winners and losers. Nukes, coal and gas plants all affected in different ways. Let's not capitalize the profits and socialize the losses.**
- 3. In regulated markets, state PUC's can determine how much of costs are recoverable from consumers.**

# WHAT'S YOUR PRINCIPLE?

If, as a matter of public policy, a state moves to a deregulated wholesale generating market, then we should not be publicly subsidizing the losers -- this is the market shaking out efficient and inefficient operators and environmental regulations for coal plants are part of the playing field. “Benefits of socialism with the corresponding detriments of capitalism.”

# GET IN LINE!

- What the nuclear generators want
- What the CCNG generators want
- What the wind power generators want
  
- What's your principle? Who pays, how much and why, and for what public benefits?

# Merchant Generators' to Financing Difficulties

Poor credit ratings (BBB and below), high leverage, high cost of capital

Industry has \$125 billion in debt

Competition -- No guaranteed revenue streams: short-term power contracts and spot market

Typically, merchant generators' coal plants re old and costly to upgrade

# Regulated Markets Allow Rate Recovery

- Pollution control can be recoverable expense in rate cases. Wisconsin Electric solution: no ROE
- Regulators must determine if upgraded generating facility conforms to least cost planning
  - Otherwise can drive facility shutdown
- No financing barriers if cost will be recovered

# Market Competition Can Be Efficient

- Regulations are a cost of doing business
- Generators shed un-economic assets
- Others acquire them at “bargain-basement” prices
- Pollution control investments economics change
- Wholesale markets favor plants with lowest marginal costs
  - Higher utilization helps to cover increased capital costs

# CONCLUSION

**Regulation or Deregulation  
Choose Your Principle and  
Apply It Fairly**