

Spruance Genco - Talking points for CPP meeting on 02/19/16 at VADEQ.

Description of Spruance for Clean Power Plan Purposes:

- Combined Heat and Power (CHP) site and the only source of steam for DuPont
- The only CHP site in Virginia subject to the rule.
- The site does not qualify for exemptions within 60.5850(e), related to limiting net electric sales, in order to obtain capacity fees needed for site financial viability.
- Ideal heat rate of units occurs when both steam and electricity are being produced. In the past few years the plant has had low dispatch for electrical supply, meaning the plant is often running only for steam supply, which is inefficient and greatly increases heat rate.
- Steam contracts with DuPont are set many years in advance (current contract runs past initial compliance date) and do not allow for pass through costs associated with allowances or ERCs.

Drawbacks of a Rate-based Approach:

- ERCs are generated by the regulated community and are not certified (automatically) by DEQ. This creates a number of potential challenges with adoption of a rate-based approach:
 - The number of ERCs available for purchase will be unknown. This does not allow for Spruance to guarantee steam delivery to DuPont.
 - The potential for a "quality" of ERC scenario where ERCs are worth more from a reliable source could have two drawbacks. The more highly valued ERCs (due to verifying procedures) could have extremely high pricing making normal business for plants requiring ERCs very challenging. Also, ERCs could go unused if the quality of an ERC is perceived to be low; under this scenario the overall reductions seen in Virginia could go well beyond EPA's intent causing excessive strain on the regulated industry in Virginia.
- For CHP units, the lowest heat rate is obtained during both steam and electric generation, meaning that lower dispatch creates a need for more ERCs on a MWh basis with increasing lb/MWh emission rates as heat rate increases. Since Spruance must produce steam by contract for DuPont and for financial viability, the rate-based approach is counter-productive to allowing CHP units to operate at the lowest lb/MWhr emission rate.
- Rate-based approach requires significant monitoring of electric and steam output for both compliance and ERC generating purposes. This added layer of complexity requires additional agency resources and additional on-site resources as compared with a mass-based approach. This appears to make the approach more expensive to both industry and the agency.
- Rate-based approach would require the plant to use ERCs for steam only production, and thereby removing these ERCs from availability for electricity sources.