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August 31, 2007

Mr. John Walker
Executive Secretary
Nevada State Environmental Commission
901 South Stewart Street, Suite 4001
Carson City, NV 89701

Re: Toquop Energy's Comments on the Petition by Western Resource Advocates

Dear Mr. Walker:

Toquop Energy LLC (Toquop) appreciates the opportunity to submit the following comments on the Petition by Western Resource Advocates to the Nevada State Environmental Commission dated July 31, 2007 (Petition). In this letter we provide comments addressing: i) Effect of Suspension of Permitting, ii) The need for new generation, iii) The Role of Renewable Generation, iv) Dependency on Natural Gas, v) New efficient plants reduce CO₂, and vi) CO₂ Capturing and Sequestration.

Toquop Energy Project is a 750-megawatt (MW) coal-fired power plant being developed by Toquop Energy LLC, an affiliate of Sithe Global Power in southeastern Lincoln County. The project originally began permitting as a 1,100 MW gas plant in 2002. However, high natural gas prices lead to the conversion to a coal-fired project. Permitting on the Toquop project began in 2005 and we expect to receive final permits by February 2008. The plant will be one of the most efficient plants in the U.S., with a supercritical pulverized coal-fired boiler operating at a net heat rate of 8,650 Btu/kWh. Very low emission rates have been proposed for this project including 0.06 lb/MMBtu for both NO_x and SO₂ and 0.01 lb/MMBtu for filterable PM, all on a 24-hour average, which will make Toquop the lowest emitting coal fired power plant in the U.S. – 10-20 times cleaner than older facilities. The plant will also use dry cooling to reduce water consumption by 80% compared to a water-cooled plant and has committed to use municipal waste water to meet its needs as it becomes available. Toquop also has the lowest water usage per megawatt hour of any coal project proposed in the State. Toquop expects both a Draft Air Permit and Draft EIS to be issued in September 2007.

Toquop with its state of the art design not only results in unique environmental performance, but it is also about economic opportunity and revenues for rural Lincoln County. The \$1.3 billion power plant will increase the tax base in Lincoln County more than 15 times over the current assessed value of \$83 million. The plant will average 812 construction workers for the four-year construction period and 110 full-time operations personnel. The direct and indirect payroll during

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construction will average \$159 million per year over the construction period and \$14.8 million per year during plant operations. Construction is expected to begin in 2008 with operations planned in 2013.

Effect of the Suspension of Permitting

Power consumers expect adequate supplies of reasonable priced reliable power. Utilities and power plant developers need a level of certainty in the permitting process to develop new resources. It takes up approximately 3 years and \$20-200 million dollars to permit and perform preliminary engineering for a new base load plant and an additional 4-5 years to construct. Granting the petitioners request to suspend permitting while new environmental standards are considered would discourage the future development of any new electric resources in Nevada. Not only would this impact consumers' access to reliable and affordable power, it would substantially increase development risks if the permit process were suspended each time revisions in environmental standards were considered. Any significant delay in getting new generation online to meet the load growth will put a severe strain on the electric system and could lead to another energy crisis and result in significantly higher electric prices.

Need for New Generation

The Southwest and the State of Nevada, face severe shortages of reliable and affordable electrical power. One reason is the region's substantial growth. According to recent U.S. Census data, Nevada is the fastest growing state in the Union, with an increase in population of over 60% in the last ten years. As well, Clark County and Las Vegas are the nation's fastest growing county and city. Nevada Power experienced a 5.1% increase in customers in 2006 and had to purchase 45% of the energy used by their customers in 2006. Further, the region is also facing reductions in what has been reliable generation. The 1,580-megawatt (MW) Mohave Generating Station near Laughlin, NV, has been out of service since January of 2006 and is considered by many to be permanently retired. The 175 MW's of generation capacity at the Clark Generating facility in Las Vegas was recently retired and three units – with nearly 300 MW – at Clark County's Reid Gardner Station are scheduled to be shutdown in the next few years. This leaves the region without 2,000 MW from its current outstretched baseload generating capacity. The Western Electric Coordinating Council's (WECC) 2006 10-year plan forecasts that load growth in Southern Nevada, Arizona and New Mexico will increase over 8,245 MW over the time period 2006-2015. When this load growth is added to units expected to be retired there is a need for over 10,000 MW of new capacity or almost 30% of the existing generation in the region. Because it takes up to 6-8 years to permit and construct new base load generation, the projects that are currently being permitted will not likely become operational before 2012 at the earliest. Toquop's generation is expected to largely serve Nevada customers including significant expected load growth in Lincoln County the result from Lincoln County Land Act and Coyote Springs developments.

The Role of Renewable Generation

The State of Nevada has enacted a Renewable Portfolio Standard (RPS) in which 20% of the state's retail load must come from renewable generation. We believe that there must be a strong role for energy efficiency and conservation, solar, wind, and other renewable power in conjunction with new highly efficient coal-fired base load capacity in meeting Nevada -- and the region's -- significant power needs. At the same time, this strategy will dramatically reduce the state's and the country's dependency on natural gas and energy imports. It is unrealistic to assume there will not be the need for significant baseload electricity resources to meet Nevada's power needs in addition to renewables. One must remember that most renewable generation is intermittent and needs to be supported by base load generation to meet customer demand at all hours. New large-scale, baseload generation options are limited to coal, natural gas, and nuclear.

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While renewable power does not produce carbon dioxide (CO₂) emissions they are not without environmental impacts. To build a solar project that generates the same amount of annual generation as the Toquop Energy Project would require over 20,000 acres and risk habitat of several endangered species.

Current Dependency on Natural Gas

Adding to the complexity of the power supply issue, Southern Nevada, Arizona and New Mexico relies much too heavily on natural gas-fired electric generation to meet its current needs, with more than 51% of the region's capacity coming from gas compared to 26% from coal. This compares to the entire U.S. which generates more than 50% of its generation from coal and 18% from natural gas. U.S. natural gas prices have increased over 60% since the start of this decade. The U.S. Energy Information Administration reports that natural gas wellhead prices averaged less than \$4.00/MMBtu from 2001 to 2003 and from 2004 to 2006 have averaged approximately \$6.40/MMBtu. In response to higher prices, drilling rig counts and gas well completions have increased dramatically but U.S. natural gas production has barely changed. U.S. natural gas producers say that they face difficult challenges and may not be able to increase U.S. natural gas production very much even with higher prices. They report that costs are increasing even faster than natural gas prices, new fields tend to produce far less gas per well than old areas, and decline rates across the board are getting steeper every year. The WECC 2005 10-year coordinated plan notes that an area wide interruption of gas supply can pose an electric supply reliability problem. On August 27, 2007 the Chair of the Nevada Public Service Commission announced plans for a summit to discuss gas supplies in the State. Chairwoman Jo Ann Kelly said that the PUC staff has concerns that the supply basins of natural gas that serve Nevada are flattening out. She also noted that Southern Nevada uses natural gas to generate all but 18% of its electric power.

It seems certain that the U.S. will be forced to rely on increasing imports of natural gas, but Canada the traditional source of imported natural gas is facing the same difficulty with flat or declining domestic gas production and growing demand. The growing global market for liquefied natural gas (LNG) is certainly a promising source of supply given that 96% of the world's proven natural gas reserves are located outside of North America. However, just as with the global oil market, there needs to be recognition that LNG suppliers will look to sell to the highest price market and European and Asian demand for natural gas is expected to be strong. Furthermore, the top LNG export countries notes several in the top 10 with recent security or instability issues including Indonesia, Algeria, and Nigeria.

Since CO₂ is a global issue the evaluation of fuel related CO₂ emissions needs to include the full fuel cycle, this especially applies to LNG. According to a recent article published in the July 2007 Environmental Science and Technology by researchers at Carnegie Mellon University, the life cycle CO₂ emissions of LNG used to produce electricity approach the CO₂ emissions from coal. If LNG is the incremental fuel for new gas fired plants the life cycle CO₂ emissions may not be less than modern efficient coal plants.

New Efficient Power Plants Reduce CO₂

Preventing the construction of new efficient coal plants and while allowing old plants to continue to operate will not further the goal of reducing carbon emissions. Any long-term solution to climate change will have to include replacement of older and less efficient generating units with cleaner, more efficient modern plants. This replacement would significantly reduce U.S. carbon emissions. According to the Department of Energy (DOE), the U.S. has approximately 315,000 MW of installed coal-fired generation capacity. By 2030, over 150,000 MW of such coal-fired capacity will be more than 50 years old. The simple, though time-consuming and costly, effort to replace these older coal units with new supercritical coal-fired boilers of the same total capacity would reduce greenhouse gases emitted by such coal-fired projects by 25% due to the increased

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efficiency of the new, advanced coal technologies. For example, the technology proposed for Toquop is approximately 25% more efficient than the typical 50 year old coal plant, meaning it will use 25% less fuel, as measured by Btu content, to produce a similar amount of electricity on an average annual basis. The replacement of old coal capacity with new efficient coal plants would allow the U.S. to reach its goal to reduce electric power related CO2 emission by up to 25% and will have the added benefit of reducing other power plant emissions by up to 90%.

CO2 Capture and Sequestration

Today, more than ever, we know that solutions to climate change are a significant challenge. Toquop has been working with governmental agencies and industry to develop laws and policies – and most importantly, advanced technologies – that will reduce man-made emissions of CO2 and other greenhouse gases. We are actively exploring options that may allow us to capture and sequester CO2 emissions from our Toquop Energy Project. We are also actively studying the technological and commercial implications of carbon capture and sequestration (CCS). After meetings with experts from the national laboratories and with major equipment suppliers and CO2 users, we have determined that, at this time, we are unable to identify a commercially feasible solution to CCS. We are optimistic that CCS will become feasible in the future and the Toquop Energy Project is being designed to enable a future CCS retrofit.

The Petition requests that the State of Nevada develop a discriminatory standard of 1,100 pounds of CO2 per MWh that would only apply to new coal plants. This is a standard that cannot be met by even the most efficient new coal plants, such as Toquop, which emit approximately 2000 lbs/MWh and would have the effect of prohibiting new coal generation. If Toquop were not built there would likely be little effect on regional CO2 emissions, as Toquop's generation would likely be replaced by a combination of existing and new baseload plants that would also generate CO2. The range of CO2 emitted could range from over 7.5 million tons by extending the life of existing subcritical coal units, to 3.2 million tons if replaced by a new natural gas fired unit. CO2 emissions from older less efficient gas units or from gas peaking units would likely range from approximately 3.9-4.6 millions tons per year. This compares with Toquop's projected CO2 emissions of approximately 5.4 million ton per year.

Finally, it is important to understand that CO2 emissions and its potential effects are not a local air quality issue. CO2 emissions from any new source in China or India will have precisely the same impact on climate change in Nevada as CO2 emissions from Toquop.

Thank you for the opportunity to provide the above comments on the Petition. Toquop is committed to being a partner in meeting Nevada's energy needs in an environmentally responsible manner. If you have any questions or we can be of assistance, please let me know.

Sincerely,



Dirk Straussfeld
Executive Vice President