



Madison Gas and Electric Company
P.O. Box 1231
Madison, WI 53701-1231
608-252-7000

your community energy company

June 11, 2007

*Sent Via E-Mail to robert.eckdale@wisconsin.gov
and Hand Delivered*

Mr. Robert Eckdale
Air Management Engineer
Wisconsin Department of Natural Resources
Post Office Box 7921
Madison, Wisconsin 53707-7921

Subject: Comments to Proposed Order AM-32-05 and Three Alternative Approaches for
Reducing Mercury Emissions from Coal-Fired Electric Steam Generating Units

Dear Mr. Eckdale:

The following comments are submitted on behalf of Madison Gas and Electric Company and its related affiliates (collectively referred to here as "MGE") on the above-referenced matters. MGE appreciates the efforts of the Department to implement the Clean Air Mercury Rule ("CAMR") and its willingness to solicit comments on alternative approaches for controlling mercury emissions from electric generating units in Wisconsin. As described below, MGE has several specific concerns with Proposed Order AM-32-05 ("Option 1") as well as the three alternative approaches (hereinafter referred to as "Option 2," "Option 3," and "Option 4") which are under consideration by the Department.

Background on MGE

MGE generates and distributes electricity to nearly 137,000 customers in Dane County. Approximately 86 percent of these customers are residential, with the remaining 14 percent being classified as commercial/industrial. Given this mix, MGE takes its responsibility seriously to plan and provide reliable, affordable electricity in a manner which reflects the unique needs and values of the community it serves.

MGE currently satisfies its customers' electric demand with purchased power and internal generation from assets owned or controlled by MGE. This generation is achieved in several manners including the combustion of various fuels (including coal, natural gas, fuel oil, and renewable resources) and through renewable generation technologies.

With respect to coal generation assets, MGE owns the Blount Generating Facility ("Blount Station") located in Madison, Wisconsin. The Blount Station consists of three coal-fired boilers and six oil and/or natural gas-fired boilers.

Mr. Robert Eckdale

Page 2

June 11, 2007

MGE also jointly owns the Columbia Generating Facility ("Columbia"), a coal-fired facility that accounts for 30 percent [225 megawatts (MW)] of MGE's net generating capability. MGE holds a 22 percent ownership interest in Columbia. The other two owners are Alliant Energy, which operates Columbia, and Wisconsin Public Service Corporation.

MGE also owns an undivided 8.3 percent long-term, leasehold interest in each of two 615-MW advanced technology, coal-fired generating units being constructed by We Energies in Oak Creek, Wisconsin [the "Elm Road Generating Station" ("ERGS")]. It is anticipated that these units will become operational in 2009 and 2010.

MGE also owns and/or operates various non-coal-fired combustion generation assets. MGE Power West Campus and the University of Wisconsin jointly own a natural gas-fired cogeneration facility on the UW-Madison campus ("WCCF"). WCCF has the capacity to produce 20,000 tons of chilled water, 500,000 pounds per hour of steam, and approximately 150 MW of electricity. MGE also owns and/or operates natural gas-fired combustion turbines in Marinette, Madison, and Fitchburg, Wisconsin.

With respect to renewable generation, MGE owns and operates a wind farm consisting of 17 turbines (each rated at 660 kilowatts) which are located in Kewaunee County. MGE is currently building a 30-MW wind farm which it will own in Iowa. Additionally, MGE will buy another 30 MW from an adjacent wind development in Iowa and 15 MW from the Forward Energy wind project near Waupun, Wisconsin. MGE has also worked with community partners and customers to develop smaller-scale solar-, landfill gas-, and sugar-derived generation.

Energy 2015 Plan

In January of 2006, MGE announced its Energy 2015 Plan. This Plan was the culmination of more than two dozen community meetings and reflects the best balance of options to respond to the various needs, values, and concerns of the customers and communities that we serve. Pursuant to the Energy 2015 Plan, MGE has made conditional commitments to retire the coal-fired generation at Blount Station and transition that facility to natural gas-only generation by 2011.

Given the commitments that have already been made in the Energy 2015 Plan, the interests of MGE and its customers are best served by the Wisconsin Department of Natural Resources ("WDNR") adopting a mercury control program which provides its customers with the greatest benefit from the commitments and emission reductions associated with the Energy 2015 Plan. In this regard, MGE supports a mercury emission reduction option which does not harm MGE because of commitments already made in the Energy 2015 Plan and existing/planned clean generation technologies.

Adoption of Model Federal CAMR

Of the four options under consideration, the interests of MGE and its customers are best served by the Department adopting the model federal CAMR which has been developed by the Environmental Protection Agency ("EPA"). Although unclear, this appears to be most closely aligned with Option 3.

The federal CAMR provides MGE and its customers with the greatest benefit from the commitments and emission reductions associated with the Energy 2015 Plan, the investments MGE has made as a co-owner in the Columbia and ERGS facilities, and the significant commitments MGE has made to renewable energy. Although MGE supports adoption of the federal model CAMR, it offers the following comments and concerns regarding the options under consideration by the WDNR.

Wisconsin Should Allow for Unrestricted Trading of Allocations

It appears the options under consideration would prohibit MGE from fully utilizing the mercury emission allocations generated by the proposed discontinuation of coal burning at Blount Station. This is because each option appears to prohibit or otherwise limit intrastate and interstate trading of emission reduction allocations amongst separate generation systems. This is particularly troublesome for MGE because it needs to use Blount Station allocations to fulfill its compliance obligations at other Wisconsin generation assets in which it has a partial ownership or operational interest.

For example, MGE has a long-term leasehold interest in ERGS. According to a preliminary analysis of the various rule options, the new unit allocation pool will be oversubscribed through at least 2017. As an entity with a leasehold interest in ERGS, there will be an expectation that MGE cover its portion of this projected shortfall in allocations. MGE will need to use its emission allocations generated at Blount Station to fulfill these annual obligations, but the various options under consideration appear to prohibit or otherwise limit this flexibility. Without the ability to trade allocations amongst systems, those generation systems which add new units (such as ERGS) will need to over-control their existing units in order to compensate for this shortfall in the new unit allocation pool. There is the possibility that MGE and its ratepayers would be forced to pay for over-controlling mercury at existing utility units in the We Energy system¹ while allocations generated at Blount Station remain idle and unused. This will result in a penalty to systems adding new generation and a disincentive to utilities, such as MGE, which chose to enter partnership arrangements to construct new, more efficient generation assets. In essence, under the proposed rule, if MGE stops burning coal at Blount Station, the economic value of Blount Station's allocations would be lost to MGE and its ratepayers simply because MGE does not own and operate multiple coal plants. This result is not equitable nor is it compatible with the purposes of the regulation.

Wisconsin Should Allow for the Banking of Allocations

It appears the options under consideration will prohibit or otherwise restrict banking of allocations for use in future years. This too is a problem for MGE which may have a responsibility to provide emission allocations as a co-owner of electric generating assets located elsewhere in the state.

¹ These costs could be substantial because mercury allocations could only be generated by making additional reductions above and beyond those otherwise required at an existing unit within We Energy's generation system. These incremental reductions would have substantially higher marginal costs.

As explained above, a preliminary analysis predicts an oversubscription of the new unit allocation pool under each of the options under consideration. Wisconsin should allow allocations to be banked and used in future years to help alleviate this problem.

Further, without the ability to bank (and trade) allocations, MGE risks losing the value of the allocations to be generated through implementation of its Energy 2015 Plan and MGE's early conditional commitment to retire coal-fired generation at Blount Station.

Order AM-32-05 Requires More Clarity and Certainty

Natural Resources Board Order AM-32-05 contains numerous proposed rule revisions and reflects a substantial departure from the model CAMR implementation rules developed by the EPA for use by states. To the extent the Department chooses to adopt revisions similar to those proposed in Order AM-32-05, the State must provide much more clarity and detail in the rule on several key implementation issues.

For example, the proposed NR 446 allows an "owner or operator" two options for meeting its mercury allocation limitations. Option 1 is to demonstrate compliance on a unit-by-unit basis. Option 2 is to demonstrate compliance on a "system-wide basis" whereby an "Owner or operator may demonstrate that the sum of the mercury emissions from affected units under their ownership or control does not exceed the sum of the mercury allowances allocated to these affected units." Wis. Adm. Code § NR 446.09(2). This latter requirement is unclear in several ways.

First, the proposed rule does not clearly address the allocation of allowances to units which have multiple owners/operators. For example, MGE has shared ownership interests in Columbia and ERGS. However, MGE's ownership interests are not reflected in the "System-Wide Mercury Emission Limitation" allocations that have been proposed for MGE as part of this rulemaking effort. (See Attachment A of the memorandum dated March 6, 2007, from Secretary Hassett to the members of the Natural Resources Board.) Rather, the "system-wide allocations" proposed for MGE appear to only encompass Blount Station.

Second, the proposed rule also lacks sufficient structure and detail for implementation. For example, there is no clarity addressing compliance demonstration and certification responsibilities in situations of joint ownership or operation. There is also little formality or detail in the rule for tracking system-wide averaging which might occur across a utility's system.

The proposed rule also provides no guidance to address situations where a unit is under joint ownership, but the co-owners chose different compliance options. For example, one co-owner may choose to demonstrate compliance for a jointly owned unit using the "unit-by-unit" approach (i.e., Option 1). Yet another joint owner may choose to demonstrate compliance for the same unit by wrapping it into a utility's "system-wide compliance" plan (i.e., Option 2). The rule is unclear as to how that would be reconciled. It should be noted that many of Wisconsin's power plants involve multiple owners. In fact, joint electric generation utility planning has been encouraged by the Public Service Commission of Wisconsin as beneficial to the public.

Mr. Robert Eckdale

Page 5

June 11, 2007

Conclusion

Given the above, we request the WDNR adopt the federal CAMR as recommended by the EPA including its allowance allocation methodology, ability to bank credits, and interstate trading. Adopting the CAMR resolves many of the problems outlined above including the following:

- MGE will not be penalized or otherwise harmed as a result of its commitments under the Energy 2015 Plan to reduce emissions or through its commitments made with respect to existing/planned renewable generation technologies.
- Participation in the federal trading market will reduce compliance costs associated with the rule, provide regulated entities with more flexibility in terms of compliance, and allow MGE ratepayers to realize the greatest benefit associated with the commitments made in the Energy 2015 Plan.
- The federal CAMR creates the greatest incentives for retiring less efficient generation assets.
- The federal CAMR provides more detail, clarity, and uniformity than the State's approach for meeting the obligations of the CAMR program.

Thank you for this opportunity, and please do not hesitate to contact me at 252-5627 if I can provide any further assistance or clarity to our concerns.

Sincerely,



Michael Ricciardi
Senior Director, Safety and Environmental Affairs

jr/Enclosure

Attachment A to Background Memo on AM 32-05 (DNR mercury rule)

Table 1 - System-wide Mercury Emission Limitations (in pounds)

	2010	2011	2012
Alliant Energy	541.125	541.125	541.125
Dairyland Power Cooperative	209.5	209.5	209.5
Xcel Energy	5.125	5.125	5.125
Madison Gas & Electric Company	20.5	20.5	20.5
Manitowoc Public Utilities	12.375	12.375	12.375
Mid-American	1.0625	1.0625	1.0625
WE Energies	661.625	661.625	661.625
Wisconsin Public Service Corporation	239.625	239.625	239.625

Table 2 - Allocations of Mercury Allowances by Units (in ounces)

Unit Location	Unit Number	2010	2011	2012
Alma	B1	53	53	53
Alma	B2	54	54	54
Alma	B3	51	51	51
Alma	B4	175	175	175
Alma	B5	250	250	250
Bay Front	5	82	82	82
Blount Street	7	60	60	60
Blount Street	8	125	125	125
Blount Street	9	143	143	143
Columbia	1	2353	2353	2353
Columbia	2	2227	2227	2227
Edgewater	3	251	251	251
Edgewater	4	1221	1221	1221
Edgewater	5	1649	1649	1649
Genoa	1	1337	1337	1337
J.P. Madgett	B1	1432	1432	1432
Manitowoc Public Utilities	6	66	66	66
Manitowoc Public Utilities	7	66	66	66
Manitowoc Public Utilities	8	66	66	66
Nelson Dewey	1	386	386	386
Nelson Dewey	2	408	408	408
Pleasant Prairie	1	2608	2608	2608
Pleasant Prairie	2	2680	2680	2680
Port Washington	1	152	152	152
Port Washington	2	106	106	106
Port Washington	3	147	147	147
Port Washington	4	0	0	0
Pulliam	3	83	83	83
Pulliam	4	97	97	97

Unit Location	Unit Number	2010	2011	2012
Pulliam	5	214	214	214
Pulliam	6	269	269	269
Pulliam	7	337	337	337
Pulliam	8	586	586	586
Rock River	1	92	92	92
Rock River	2	71	71	71
South Oak Creek	5	892	892	892
South Oak Creek	6	881	881	881
South Oak Creek	7	1159	1159	1159
South Oak Creek	8	1205	1205	1205
Stoneman	B1	8	8	8
Stoneman	B2	9	9	9
Valley	1	189	189	189
Valley	2	189	189	189
Valley	3	189	189	189
Valley	4	189	189	189
Weston	1	259	259	259
Weston	2	422	422	422
Weston	3	1567	1567	1567