

ACCCE'S POSITION ON SETTING 111(D) STANDARDS

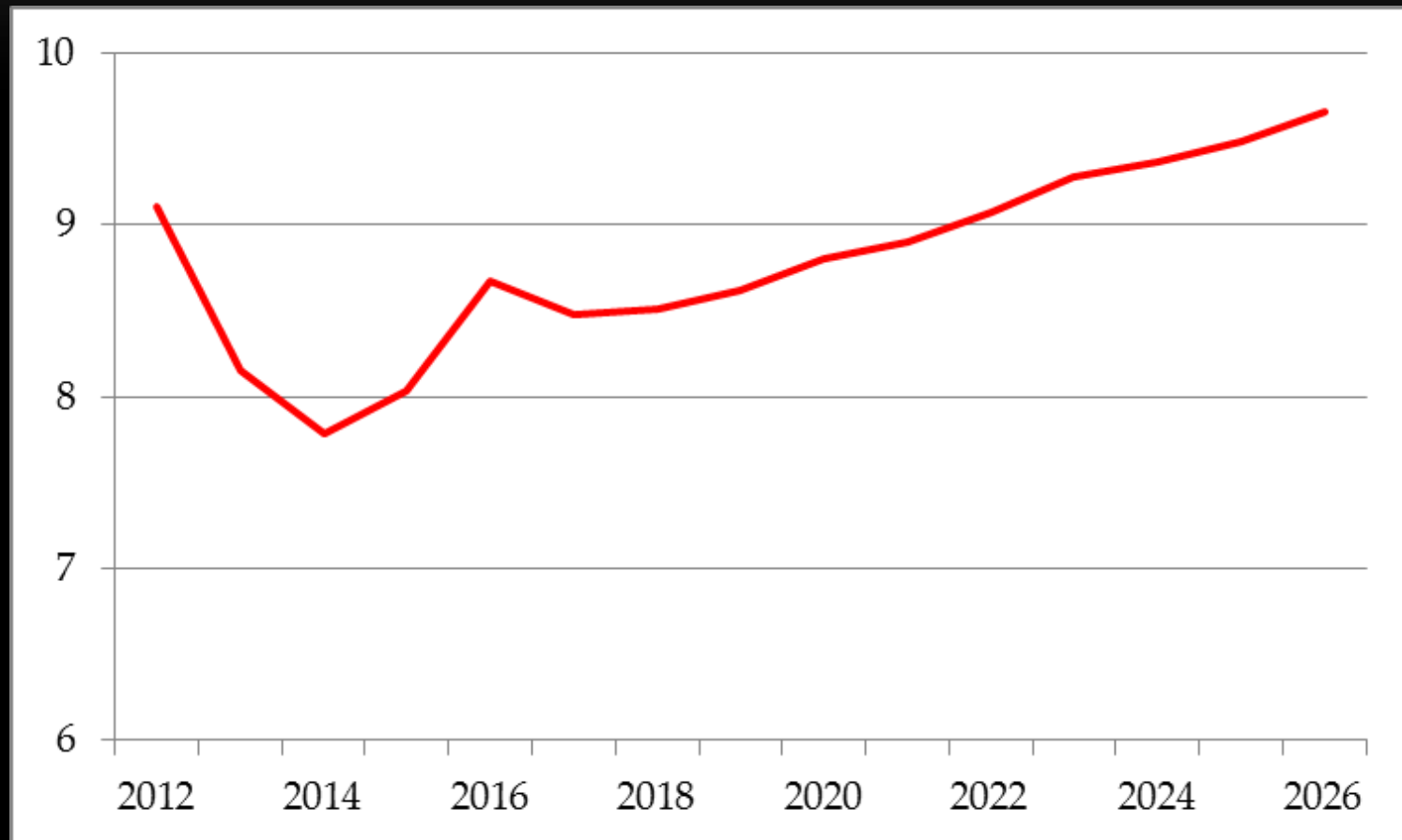
- Set **inside-the-fence** standards based on measures that are achievable at each coal-fired and gas-fired unit.
- Once inside-the-fence standards are set, allow **outside-the-fence** flexibility to comply.

MAJOR CONCERNS

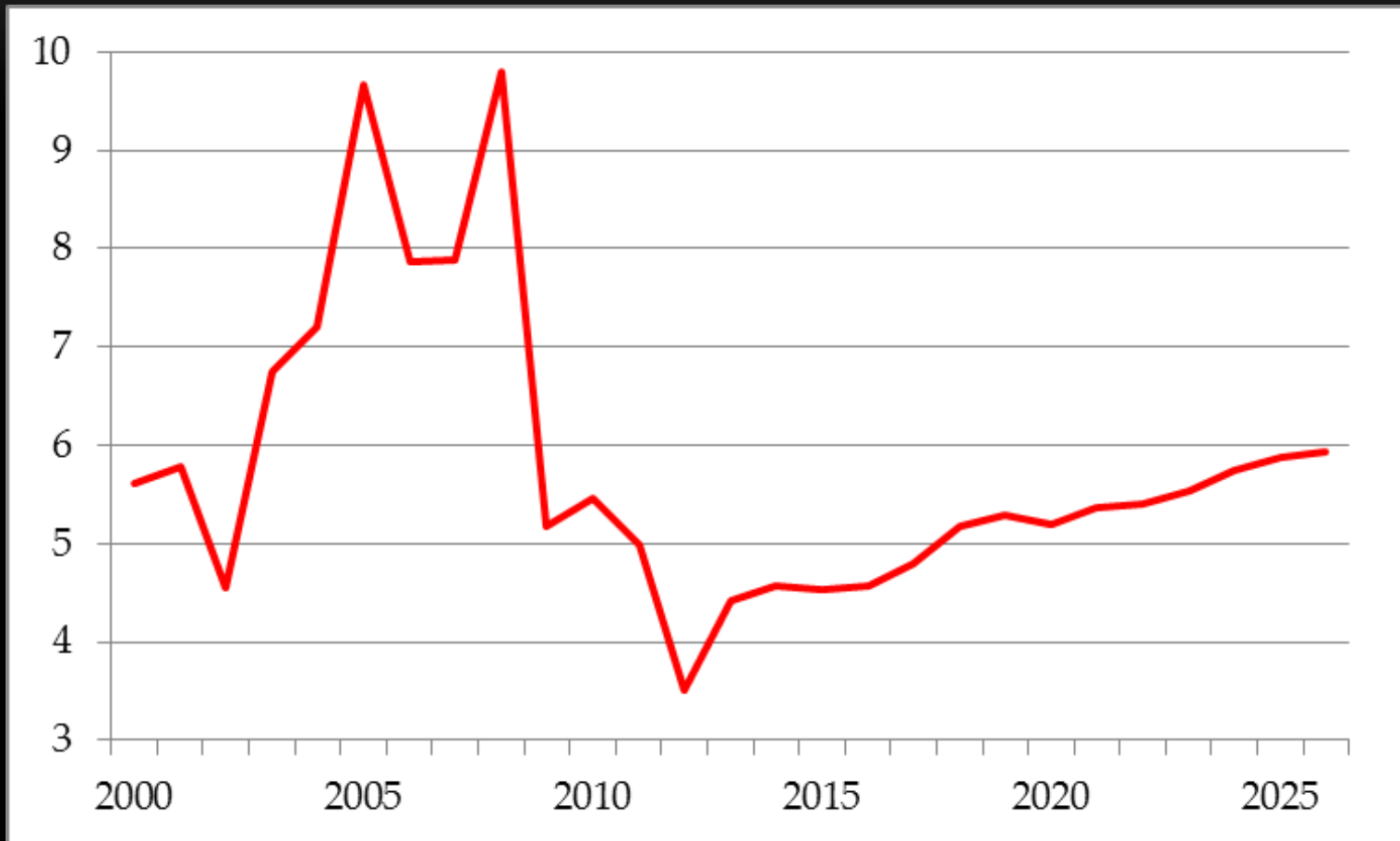
- Threats to electric reliability
- Overreliance on natural gas
- Higher energy prices
- Employment losses

NATURAL GAS CONSUMPTION FOR ELECTRICITY GENERATION IS ALREADY PROJECTED TO INCREASE

(TRILLIONS OF CUBIC FEET PER AEO 2014)



**NATURAL GAS PRICES FOR POWER GENERATION
ARE ALSO PROJECTED TO INCREASE**
2012\$/mcf



Source: EIA AEO 2014

IMPACTS OF SYSTEM-BASED STANDARDS

Consumer costs \$13 B/yr to \$17 B/yr

Additional coal retirements 35 GW to 83 GW

Natural gas generation Up 8% to 61%

Natural gas prices Up 2.2% to 16%

Natural gas expenditures (non-electric) \$8 B to \$54 B

Job losses 1,000/yr to 178,000/yr

Electricity price increases (%) Double digits

Source: National Economic Research Associates (2014) analysis of NRDC proposal.

OVERRELIANCE ON NATURAL GAS

Deliverability issues

- Electric sector gas demand is increasingly year-round
- Natural gas pipelines are built without excess capacity
- Generator reliance on interruptible pipeline transportation

Reliability issues

- Disconnect between power and gas markets
- Pipeline system not designed for varying power demand
- Infrastructure requirements

COAL RETIREMENTS

EPA Projection 2011 (CSAPR + MATS)*	9.5 GW
Announced and attributed to EPA policies	52 GW
Seven EPA regulations (NERA analysis 2012)	54 - 69 GW
NRDC proposal (NERA analysis 2013)	35 – 83 GW
CATF proposal (CATF analysis)	42 GW
Effluent Guidelines (NERA analysis 2013)	11 GW

Sources: EPA, Regulatory Impact Analysis for the Federal Implementation Plans to Reduce Interstate Transport of Fine Particulate Matter and Ozone in 27 States; Correction of SIP Approvals for 22 States, June 2011; Regulatory Impact Analysis for the Final Mercury and Air Toxics Standards, December 2011; company announced retirements.

POLAR VORTEX: PREVIEW OF THINGS TO COME?

- Gas prices ... \$140/mmBtu (vs. ~\$3-5/mmBtu)
- Electricity prices ... \$2,000/MWh (vs. ~\$40-50/MWh)
- AEP ... 89% of retiring capacity running
- Southern ... 75% of retiring capacity running

Source: EIA (2014), PJM, company statements, Congressional hearing.

POLAR VORTEX NATURAL GAS AND POWER PRICES

