

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO**

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IN THE MATTER OF THE COMMISSION)	
ACTIVITIES RELATED TO THE)	
ENVIRONMENTAL PROTECTION AGENCY)	DOCKET NO. 12I-235E
(EPA) MERCURY AND AIR TOXICS)	
STANDARD (MATS))	

**PUBLIC SERVICE COMPANY OF COLORADO'S
COMMENTS REGARDING EPA MERCURY AND AIR TOXICS STANDARDS**

Public Service Company of Colorado ("Public Service" or "Company") respectfully submits our comments to Decision No. C12-0285 requesting additional information from utilities on the environmental and system reliability of the EPA MATS¹. The Commission initiated an investigatory docket to evaluate the implications of the EPA's MATS on utilities in Colorado.

The Commission notes in its Decision that MATS affects the majority of the coal and oil-fired generating units in the United States, and will significantly impact the electric power sector across the country in particular in the Western Interconnection. The Commission has articulated a concern over the reliability of the interconnected electric system in Colorado should compliance activities in the State and in Wyoming require taking coal units to be: taken off line to install pollution controls; converted to natural gas; or, retired.

¹ On February 16, 2012 the EPA finalized the MATS regulations setting April 16, 2012 as the effective date for the new regulation. MATS requires all coal and oil-fired electric generating units larger than 25 MW that produce electricity for sale and distribution to the public to meet emissions limits for toxic metals, acid gases, and particulate matter within three years of its effective date.

BACKGROUND

EPA designed MATS to control mercury, acid gases, and non-mercury metal emissions from Electric Generating Units (“EGU”). MATS sets specific emission limits for each of these pollutants but allows the owner or operator of an EGU to demonstrate compliance in some circumstances through the use of “surrogates.” For example, MATS allows EGU owners and operators to demonstrate compliance with the acid gas limits through the use of SO₂ surrogates and the non-mercury metal limits through particulate matter limits. (Mercury has no surrogate; EGUs must demonstrate compliance with the mercury limit through the use of mercury continuous emission monitors.) The specific emission and surrogate limits associated with MATS are set forth in Table 1.

Table 1. MATS Emission Limitations for Existing EGUs

Primary Pollutant	Emission Limit	Surrogate Pollutant	Emission Limit
Total Non-mercury Metals	5.0 x 10 ⁻⁵ lbs/MMBtu	Filterable Particulate Matter	0.030 lb/MMBtu
Hydrogen Chloride	0.0020 lb/MMBtu	Sulfur Dioxide	0.20 lbs/MMBtu
Mercury	1.2 lbs/TBtu	None	N/A

MATS does not require the use of a specific emission control technology to comply with its limits; the EGUs must meet the specific emission target regardless of the control technology employed. Thus, EGU operators may choose to use a variety of potential emission reduction methodologies to comply with the MATS rule, including: (1) low sulfur coal, lime spray dryers, wet scrubbers or dry sodium injection for acid gases;

(2) low mercury coal or sorbent injection to control mercury; and, (3) baghouses to reduce non-mercury metal emissions.

MATS requires compliance by April 17, 2015. EGU owners may seek approval from the state permitting authority (in this case the Colorado Department of Public Health and Environment) for a one year extension if appropriate to enable the installation of control equipment. In addition, as discussed below, Public Service's parent company Xcel Energy Inc. has asked EPA to grant additional flexibility under MATS for emission reductions achieved under state programs such as the Colorado Clean Air -- Clean Jobs Act.

IMPACT OF MATS ON PUBLIC SERVICE COMPANY

MATS will apply to the following units operated by Public Service:

- Cherokee 3 and 4
- Valmont 5
- Pawnee
- Hayden 1 and 2
- Comanche 1, 2, and 3

MATS will not apply to Cherokee 2 (retired in 2011), Cherokee 1 (retire in May 2012), Arapahoe 3 (retire 2013), or Arapahoe 4 (switch to gas in 2013).²

Through our implementation of the 1998 Denver Metro Area Voluntary Emission Reduction Agreement, the 2007 Colorado Mercury Rule, and the approved 2010 Clean Air – Clean Jobs Act Plan (CACJA Plan), Public Service coal-fired units are well-positioned to meet the new requirements under the MATS rule. The following is a plant-

² MATS also applies to EGUs at the Craig Station. PSCo is a minority owner in Craig 1 and 2. The operating agent for those units (Tri-State) has indicated that those units should be able to comply with MATS without additional controls, assuming the continued use of the current coal supply for Units 1 and 2.

by-plant summary of the existing or planned emission controls needed to meet the MATS requirements for all the Company's units burning coal past April 2015.

Cherokee, Hayden, and Valmont: All units at these plants not retired under the CACJA Plan are currently equipped with lime spray dryers and baghouses for the control of acid gases and non-mercury metals, respectively. These units also burn a Colorado bituminous coal which results in mercury emissions below the levels required in the MATS rule. Therefore, Cherokee Units 3 and 4, Hayden Units 1 and 2, and Valmont Unit 5 can all meet the MATS requirements without the need for additional emission controls. As indicated above, the retirement of Cherokee 1 and 2 under the CACJA Plan eliminates the need to install controls on those units.

As part of the CACJA Plan, Cherokee 3 and Valmont 5 will retire in 2016 and 2017, respectively, while Cherokee 4 will switch to natural gas by the end of 2017. Therefore, although these units already operate in compliance with the MATS rule, the MATS monitoring, testing and recordkeeping requirements will apply at Cherokee and Valmont for a short time after the emission limitations go into effect in April 2015.

Comanche: As a result of the environmental settlement and permits associated with the construction of the new Comanche 3 unit, all three Comanche units are currently equipped with lime spray dryers, baghouses, and sorbent injection for the control of acid gases, non-mercury metals and mercury, respectively. Therefore, Comanche Units 1, 2, and 3 can meet the MATS requirements without the need for additional emission controls.

Pawnee: Unit 1 is currently equipped with a baghouse and sorbent injection for the control of non-mercury metals and mercury, respectively. Pursuant to the CACJA

Plan, a lime spray dryer for the control of acid gases will be installed on this unit by the end of 2014. Consequently, Pawnee will be able to fully comply with these new EPA requirements for hazardous air pollutants by the MATS compliance date of April 17, 2015.

As part of the CACJA Plan, a new natural gas combined cycle power plant will be installed at Cherokee by the end of 2015. The plant will replace the generation from the retired coal units at Arapahoe, Cherokee, and Valmont. This additional generation will be in service prior to the completion of the coal unit retirements approved in the CACJA Plan and will assure reliable operation of the Public Service system under MATS.

In sum, the Company's coal fleet should be able to comply with the requirements of MATS reliably and with little additional cost to our customers. Public Service is able to meet the mandates of MATS at low cost as a result of the proactive clean energy strategies pursued by the Company with the support of the Commission over the last decade. These strategies acted as designed: They protected our customers from the cost and risk of EPA regulation while allowing us to continue to provide reliable, reasonably priced power.

RELIABILITY

The Company does not believe MATS will have a significant impact on the Company's coal fired resources that would require multiple outages beyond those scheduled for emission control installations under the CACJA Plan. Further, the Company does not believe it will be impacted by other coal unit outages in the Western Interconnection.

In the Company's most recent Electric Resource Plan filed in Docket No. 11A-869E, Attachment 2.11-1 RAP Loads and Resource Table ("L&R") reflects the fact that the Company's dependence on capacity and energy purchases from coal fired resources supplied by others is very limited. As detailed below, the Company purchases coal-fired energy from resource pools owned by Tri-State Generation and Transmission Association, Inc. ("Tri-State") and Basin Electric Power Cooperative ("Basin") and receives firm energy from the PacifiCorp system delivered at the Craig and Hayden plants. The Tri-State and Basin deliveries can be curtailed on a *pro rata* basis based on outages of resources in the pool. The PacifiCorp purchases are firm deliveries curtailable only in *Force Majeure* events. Table 2 provides more detail.

**Table 2
Details of PPAs**

Contract	Counterparty	Resource Pool	Capacity	Expiration
Basin #1	Basin	About 680 MW at Laramie River Station ("LRS")	100 MW	March 31, 2016
Basin #2	Basin	About 680 MW at LRS	75 MW Summer Only	March 31, 2016
Tri-State #2	Tri-State	About 412 MW at LRS and about 654 MW at Craig Station	100 MW	March 31, 2017
Tri-State #3	Tri-State	About 412 MW at LRS and about 654 MW at Craig Station	25 MW Summer and 75 MW winter	March 31, 2016
PacifiCorp Exchange ³	PacifiCorp	PacifiCorp system with firm deliveries at Hayden 1 and 2 and Craig 1 and 2.	150 MW	October 31, 2022

³ The Company sought approval of the PacifiCorp Exchange in Docket No. 12A-256E which is pending before the Commission. If the Commission denies that application, the impact on this table would be an increase in capacity from 150 MW to 176 MW.

Because the PacifiCorp deliveries are firm, it is up to PacifiCorp to deliver capacity and energy from alternative resources if Craig 1, Craig 2, Hayden 1, or Hayden 2 are curtailed. PacifiCorp is one of the joint owners of Hayden Station and, as indicated above, when the emissions controls associated with the CACJA Plan are installed; Hayden Station will comply with MATS. The Company is a joint owner of Craig units 1 and 2 and Tri-State has indicated that they believe these units are currently in compliance for MATS. The Company has not been able to ascertain the compliance status of LRS or Craig 3, but the Company would only see small curtailments relative to its full resource base if those units are curtailed due to the need to install additional emissions controls due to MATS.

In total, the coal-fired purchases represent only approximately 6% of the Company's generation supply resources in 2015, the first compliance year under MATS regulations. Of that amount, only about 3.7% of the Company's generation supply resources are dependent on coal capacity that we have not yet confirmed comply with MATS (Craig 3 and LRS). See Exhibit 2. Because the long-term purchases are from a pool of resources, the impact of an individual unit outage is small. For example, a full outage of Craig 3, would only curtail PSCo purchases by about 53 MW. To the extent that outages of Craig 3 and the LRS units are needed, Tri-State and Basin will have an incentive to ensure that not all of the units are on outages at the same time, because those units are used primarily to serve the loads of those utilities.

The Company does purchase coal-fired energy from other utilities when that energy is available and priced below the Company's cost to generate electricity; however, those purchases are opportunity purchases and are not needed for system

reliability. For these reasons, the Company believes it is well positioned to be insulated from coal plant outages due to MATS regulation.

When the Company plans its generation fleet, it plans to be able to meet projected load plus a planning reserve margin currently set at 16.3% or about 1000 MW. The planning reserve margin is determined through a statistical study designed to allow the Company to meet load all but one day in ten years given that the load forecast is uncertain and actual peak load may be higher or lower than forecast and some generating units are likely to be unavailable over the peak load periods. However, when dispatching the system to meet load on a day to day basis, the Company needs to hold operating reserves, which are substantially lower than the full planning reserves, to ensure system reliability. The Company meets that operating reserve obligation through membership in a reserve sharing group.

The Company's membership in the Rocky Mountain Reserve Group ("RMRG") further supports the Company's ability to maintain reliable operations of the system. As a member of the RMRG, Public Service carries operating reserves in accord with the RMRG-established methodology. Today, RMRG has 15,511 MW of generation; 7369 MW are from coal fired generation and Public Service's coal-fired units make up 3,022 MW of pool capacity. Based on the make up of RMRG's generation and the portion of the Company's coal units of which that make up is comprised, the Company maintains that there will be little reliability impacts to Public Service as a result of MATS regulation and that the Company will be able to provide for any small outages within its planning reserves. The Company also notes that the Reliability Coordinator in the Western Electricity Coordinating Council, the applicable reliability organization, has broad

authority to order changes in outages if needed to maintain the reliability of the western interconnection.

RELIEF

State emission reduction program equivalency. Despite the fact that the company projects that MATS will have little impact on the Public Service system, Xcel Energy (on behalf of Public Service and its affiliate Northern States Power Company) has sought additional guidance from EPA to recognize and provide additional flexibility in the MATS rule for the CACJA Plan and other state clean energy programs.

Section 112(l) of the Clean Air Act allows states to implement their own programs provided that they are no less stringent than the underlying federal limit. Because the CACJA Plan was designed to meet all reasonably foreseeable emission reduction requirements and, as a result, achieves more environmental improvement than required by the MATS rule, we have argued that EPA should recognize the CACJA Plan as fulfilling the requirements of MATS. In fact, EPA itself recognized the CACJA Plan as just such a program in the preamble to the proposed rule that became MATS. 76 Fed. Reg. 24,976 at 25,057-8 (May 3, 2011). A copy of a letter sent by Bill Bumpers, Xcel Energy's counsel, to Gina McCarthy, EPA's Assistant Administrator for the Office of Air and Radiation, is attached as Exhibit 1.

While the Company does not need the relief provided by Section 112(l) to meet the requirements of MATS, if the EPA were to recognize that the CACJA Plan fulfills the requirements of MATS it would reduce the Company's reporting and recordkeeping burden, especially at Cherokee 3 and 4 and Valmont 5, which are destined for retirement or repowering only a few years after the MATS compliance date. Moreover,

we believe that Section 112(l) sets an important precedent that EPA should apply to other programs: it should recognize the value of state programs like the CACJA Plan.

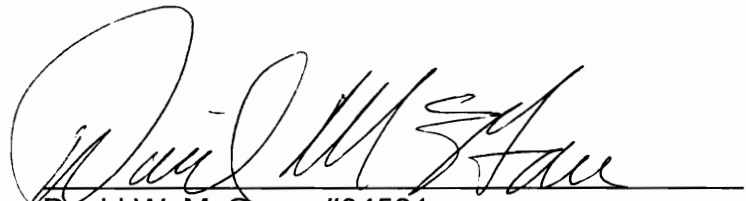
We have not yet received any response from EPA to our request, but will inform the Commission regarding EPA's final decision.

CONCLUSION

With the support of the Commission, Public Service Company of Colorado's past and recent actions to implement emission reductions have positioned the Company to meet the EPA's recent MATS regulation. As discussed above, the Company does not believe multiple outages of coal fired power plants beyond those to implement the CACJA Plan are necessary to meet MATS, nor does the Company believe its power purchases from coal fired units will be adversely impacted due to MATS regulation.

Dated this 27th day of April, 2012.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "David W. McGann", written over a horizontal line.

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