

## Appendices

### Appendix 1 - Centralia Experience

#### An Innovative Approach to Achieving GHG Reduction Goals Washington State's Leadership with TransAlta's Centralia Plant

##### Summary

In 2010, Washington's Governor Gregoire led an initiative with TransAlta and environmental organizations to reach an agreement for a staged transition of TransAlta's Centralia coal-fired power plant that met collective environmental and economic goals for the State. An agreement was reached and confirming legislation enacted in May, 2011.

##### Background

The Centralia generating facility is a 1,340MW coal-fired facility located in northwest Washington State. TransAlta purchased the facility from a consortium of seven northwest US power utilities in 1999. At the time of purchase coal was mined on site. In 2006 TransAlta transitioned the facility to consume coal delivered by rail to the generating station from the Power River Basin in the US Midwest. The plant remains the major employer in Lewis County and a critical provider of baseload power and grid support for Washington.

By 2008 TransAlta was facing pressures from environmental group to close the facility yet simultaneously experiencing declining power market revenues which would require the company to run the facility over a longer period of time in order to recover capital that was invested in the plant. Through 2010-11, intensive negotiations were facilitated by the Governor's office between TransAlta, the Government, environmental organizations such as the Sierra Club, and other industry participants, to achieve a mutually acceptable solution.

##### Key participants and motives

Participant	Motives
State Government	<ul style="list-style-type: none"><li>- Reduce GHG emissions as part of the State's climate change program</li><li>- Continue to support the operations of the Centralia generating station, an important tax payer and employer in the NW of Washington</li><li>- Appease concerns of environmental groups</li></ul>
TransAlta	<ul style="list-style-type: none"><li>- Run units to 2025 in order to recover invested capital</li><li>- Avoid uneconomic investments in environmental capital given the facility's approaching end of life</li><li>- Implement long term power sale contracts, with support of the Public Utilities Commission</li><li>- Achieve long-term regulatory clarity including shielding from federal environmental law changes</li></ul>
NW Utilities	<ul style="list-style-type: none"><li>- In purchasing power output from Centralia, include a portion of "deemed invested capital in a power plant" for rate making considerations</li><li>- Repeal of legislation that limited the duration of physical contracts from coal facilities to terms less than 5 years.</li></ul>

<b>Participant</b>	<b>Motives</b>
Environmental Concerns – via Sierra Club	<ul style="list-style-type: none"> <li>- Retire the coal facility by 2020</li> <li>- Require Centralia to invest in best environmental equipment in order to continue operating</li> </ul>
Washington State Public Utility Commission	<ul style="list-style-type: none"> <li>- Supply lowest cost and reliable power for WA state rate payers</li> <li>- Ensure that any deal negotiated between TA and the utilities would provide low cost power without unnecessary profits on the part of TransAlta or the Utility.</li> </ul>

## **Resolution**

### *Environmental Considerations*

All parties reached agreement that one generation unit would be closed in 2020, and the second one in 2025. The Sierra Club also agreed to not pursue requiring TransAlta to install any further pollution controls equipment prior to plant retirement, with the exception of additional SNCR controls for NOx (now in place). The Washington state government agreed to protect Centralia from any federal laws that would be more punitive to the plant's operation or economics prior to the agreed end of life.

### *Economic Considerations*

TransAlta achieved regulatory clarity and an acceptable plant life to allow investment recovery. In order to complete long term contracts, legislation that limited the duration of long term, physical sales was repealed. The state supported discussions with the PUC for long term electricity contracts for the Centralia plant's output. With the continued operation of the Centralia facility, the state helped to support an important employer and tax payer in an economically depressed area of Washington State. And the State agreed to support work on developing replacement generation once the coal units are retired. As part of the transition from coal to cleaner fuels, an expedited permitting process was put in place for replacement gas-fired generation at the Centralia energy site.

### *Government Involvement*

An important element through all of the events leading to the development of a workable solution for stakeholders was the key role played by the Governor of Washington state. The Governor took an active role in this issue and provided the setting for the parties to come together including providing senior staff to facilitate negotiations, established the framework for discussion and also provided direct involvement from her office in marshaling the various parties to an agreement. Without the leadership from this key participant, achieving a solution that met the objectives of all parties would have been much more difficult.

This initiative provides a case study in successful collaboration among government, industry and non-governmental organizations to achieve multiple environmental objectives in an economically-effective way, while protecting the reliable supply of power to the State.

### Attachments:

1. Details of the Agreement
2. Washington Government News Release, April 29, 2011

## Attachment 1 – Details of the Agreement

### **TransAlta agreed to:**

- Provide financial assistance for economic development and the funding of certain energy technologies:
  - \$10M for Weatherization Fund
  - \$20M for Economic and Community Investment Fund
  - \$25M for Energy Technology Fund

Funds are paid out annually over the remaining life of the facility. Governing boards are to be established with the State including representation from the local community, and TransAlta

- Install selective noncatalytic reduction pollution control technology (SNCR)
- Permanently cease power operations of Boiler 1 in 2020 and the other Boiler in 2025, which dates are prior to the 2035 end of their expected useful lives

### **Washington State agreed to:**

- Establish NOx emission requirements based on SNCR
- Establish with the Company, governing boards to approve grants from independent accounts
- Recognize investments by the Company in emissions reductions and confirm that based on the early retirement of Boilers, Centralia power is “climate responsible transition product that will substantially contribute to the state meeting its climate change policies and achieve the greenhouse gas reductions...”
- Confirm that Centralia power is a product that meets the GHG emissions performance standards of the State
- Permit entry into long-term contracts for the sale of electricity
- Provide certainty regarding environmental requirements that affect power generation operations
- Provide certainty regarding sales and use tax exemptions

Effective term of the agreement is April 1, 2012. MOA terminates Dec. 31, 2025.

# Gov. Gregoire signs landmark legislation to transition state off of coal power

For Immediate Release: April 29, 2011

Gov. Chris Gregoire today, joined by TransAlta executives, legislators, and members of the environmental and labor communities, signed legislation to phase out coal-fired energy production at the TransAlta power plant in Centralia. Senate Bill 5769 solidifies into law a collaborative agreement to close the state’s two coal boilers – the first in 2020 and the second in 2025. The agreement provides a path to cleaner power while allowing the necessary time to provide stability to the electrical grid and to the community in Lewis County.

“The Centralia power plant has long been a critical part of the regional economy,” Gregoire said at the bill signing ceremony at the Centralia plant, attended by TransAlta employees. “The men and women here who keep it running not only power homes and businesses, you serve as the backbone of your communities. We will build on your skills and your know-how to power our grid and our future. I want to thank our partners at TransAlta, our environmental community, and labor for coming together to be part of Washington’s clean energy future. I’d also like to thank our legislators, who gave this bill bipartisan support.”

In 2009, Gregoire signed an executive order directing the Department of Ecology to work with TransAlta on an agreement that would apply the greenhouse gas emissions performance standards by no later than December 31, 2025. The law established today culminates two years of negotiations that produced an agreement between the company, the environmental community and the state.

“TransAlta is a progressive power company that strives to produce more electricity with less environmental impact, every day,” said TransAlta President and CEO Steve Snyder. “We are proud to play a leading role in this unique collaboration of industry, government, community and environmentalists to chart a new energy future for Washington State. With this bill, TransAlta will be able to continue powering this community with new investments in power production and new jobs.”

Under the legislation:

- The plant’s two coal boilers will meet the state’s emissions performance standard for new and modified power plants, which will require the boilers to shut down. The standard will apply to one boiler on Dec. 31, 2020, and to the other boiler on Dec. 31, 2025 – essentially ending coal-fired power in Washington State in the next 14 years;
- In 2013, TransAlta will install additional air pollution control technology to further reduce emissions of nitrogen oxides at the plant. The TransAlta plant is the state’s largest single industrial source of nitrogen oxide emissions. Nitrogen oxides are one of the causes of visibility-limiting regional haze in national parks and on federal lands;
- TransAlta agrees to contribute \$30 million in a community investment fund to help with economic development and energy efficiency projects, as well as \$25 million in an energy companies in Washington state; and
- TransAlta will be allowed in the interim to sell coal power under long-term contracts within Washington – which will give the company the financial stability needed to transition to a cleaner source of energy.

“I am proud for many reasons, but mainly because I have never seen such collaborative work evolve in this fashion during my 13 years of work at the Legislature,” said Sen. Phil Rockefeller. “I believe what made this agreement possible was the respect and dedication each party brought to the table. The result is a cleaner energy future, with power, jobs, health and environmental benefits that all can share.”

“When this bill had its final hearing, business, labor, environmental and health advocates were all sitting side by side at the testimony table,” said Rep. Dave Upthegrove. “They were asking us to move forward with this, and we listened. It’s an honor to be here today to follow through on this historic agreement.”

“Today, we are one significant step closer to being truly free from coal in the Northwest, which will bring about a cleaner, safer, healthier and more prosperous future,” said Bruce Nilles, Deputy Conservation Director for the Sierra Club. “The Sierra Club thanks the many people who worked hard to make this historic agreement a reality, including our allies in the Environmental Priorities Coalition, members of the Legislature, TransAlta, the working men and women of Lewis County, and of course, Governor Gregoire and her dedicated staff.”



*Washington State Governor Chris Gregoire is joined by TransAlta President & CEO - Steve Snyder, legislators, labor and environmental groups and other key bill proponents as she signs the bill into law.*