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Greg J. Conway
Senior Vice President
Coal Generation

INDEPENDENT REGULATORY
REVIEW COMMISSION



August 25, 2006

BY HAND DELIVERY AND ELECTRONIC MAIL

Environmental Quality Board
Rachel Carson State Office Building
400 Market Street
15th Floor
Harrisburg, PA 17101-2301

Re: Proposed Amendments to 25 Pa. Code, Ch. 123, Mercury Emissions

Dear Board Members:

EME Homer City Generating, L.P. ("EME HCG") appreciates the opportunity to provide the members of the Environmental Quality Board with our comments regarding the proposed adoption of a Pennsylvania mercury emissions control program in lieu of the federal Clean Air Mercury Rule ("CAMR").

EME HCG is the operator of the 1,884 MW (net) coal-fired Homer City Generating Station ("Station") in Center Township, Indiana County. The Station is a merchant plant and its energy and capacity are sold primarily to customers in the Pennsylvania, New Jersey, and Maryland ("PJM") Power Pool. Operating at full load, the Station's three units generate enough electricity to meet the needs of about two (2) million households. The Station has approximately 260 employees and an annual payroll of about \$29 million. Three-quarters of the Station's employees are members of the International Brotherhood of Electrical Workers ("IBEW"). In addition, approximately 30 members of the United Mine Workers ("UMW") are employed by an independent contractor that provides coal washing services under contract to the Station. It purchases an estimated \$310 million in goods and services from the area economy annually, including six (6) million tons of bituminous coal from mines in southwestern Pennsylvania.

The Station complies with all federal and state emission limits for nitrogen oxides and sulfur dioxide, achieving one of the lowest nitrogen oxides emission rates among the large coal-fired power plants in the eastern United States. It has installed a scrubber on Unit 3 that is designed to

reduce sulfur dioxide emissions by 98% and selective catalytic reduction ("SCR") control technology on all three units to reduce nitrogen oxide emissions.

EME HCG joins with other electric generating units ("EGUs"), labor unions, and trade associations in urging the Environmental Quality Board to adopt the federal CAMR instead of the mercury emissions control regulations proposed at 36 Pa. Bulletin 3185 (June 24, 2006). With its cap and trade program and 86% reduction of mercury emissions by 2018, the federal CAMR has a sound scientific and technical basis, achieves realistic and substantial reductions in mercury emissions within a reasonable time, and protects the health of even our most vulnerable citizens. At the same time, it provides economic incentives for sources to over-control mercury emissions or install controls before the mandated deadlines, preserves the jobs of Pennsylvanians in mining and other industries related to power generation, and minimizes economic impacts on electricity consumers by preserving electric generating capacity and reliability.

If the Environmental Quality Board proceeds with the adoption of a Pennsylvania-specific mercury emissions control program, EME HCG requests that the Board amend proposed 25 Pa. Code § 123.214 to provide that where the owner/operator of an EGU employs coal washing, the input mercury content of the coal shall be analyzed before coal washing occurs. Based on our experience at the Station, coal washing provides a significant reduction in mercury emissions, and those owners/operators who use it should not be penalized with essentially higher mercury reduction rates.

In addition, EME HCG requests that the Board modify proposed 25 Pa. Code § 123.206(b) to provide that 1) an existing EGU that combusts 100% bituminous coal and has a CS-ESP or FF and Activated Carbon Injection ("ACI") will be presumed to be in compliance with the emission standard requirements of 25 Pa. Code § 123.205(c)(1), and 2) an existing EGU that combusts 100% bituminous coal and has a CS-ESP or FF, SCR, and ACI will be presumed to be in compliance with the emission standard requirements of 25 Pa. Code § 123.205(c)(2) without any additional demonstrations of compliance. The rule as currently proposed presumes an existing EGU combusting bituminous coal to be in compliance with the Phase 1 requirements in proposed 25 Pa. Code § 123.205(c)(1) if it has a CS-ESP or FF and WFGD and with the Phase 2 requirements in proposed 25 Pa. Code § 123.205(c)(2) if it has an SCR, CS-ESP or FF, and WFGD. The rationale for this "presumed compliance" is that EGUs are likely to install FGDs and SCRs to comply with regulations for other pollutants, such as the Clean Air Interstate Rule ("CAIR") program, and will enjoy a co-beneficial reduction in mercury. However, in response to concerns of the generation industry that state-specific rules will place EGUs at a competitive disadvantage, the Department of Environmental Protection ("DEP") and other advocates for the proposed rule have stated publicly that ACI is a cost-effective method of significantly reducing mercury emissions. While EME HCG already has one FGD and three SCRs in operation, it is currently evaluating installation of two other FGDs in light of the timetables for compliance with new regulations affecting other pollutants and a mounting backlog and sharp cost increases for

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FGD projects over the next few years. Based on DEP's own statements about ACI and the current profile of EME HCG with respect to FGDs, SCR's and the use of bituminous coal, we request that the Board also provide for the use of ACI as described above to be considered presumptive compliance with the Phase 1 and 2 emission standard requirements for existing EGUs.

Finally, as a result of electric deregulation, Pennsylvania EGUs compete in a very broad wholesale market to sell their power. At this time, numerous states with competing generation—i.e., Ohio—do not appear to be contemplating state-specific mercury regulations that exceed the federal CAMR. Therefore, we urge the Board to give every consideration to some type of emissions allowance trading program to minimize cost disadvantages for Pennsylvania businesses and workers and provide incentives to EGUs to over-comply with mercury emissions requirements. In particular, the addition of an interstate trading program following the outline of federal CAMR to the proposed rule would ensure the ability of EGUs to meet the annual budget requirements of federal CAMR, and, when combined with the other elements of the proposed rule, provide for the emission reductions being sought by DEP. Such an approach would also alleviate the impacts of the State's disparate mercury allocation in federal CAMR.

Thank you for considering EME HCG's comments. We hope that the Board will adopt a mercury emissions control program that is fully consistent with federal CAMR.

Sincerely,



For EME Homer City Generation, L.P.

Guy F. Gorney
Senior Vice President
Edison Mission Group

c: Honorable Don White

