THE FACTS ABOUT AEP'S COMPLIANCE PLAN

There has been significant discussion about the plan that AEP released June 9 to comply with a series of proposed EPA regulations that impact coal-fueled power plants. Following are some inaccurate statements about our plan, and the facts we think you should know.

Allegation: Most of the coal-unit retirements announced by AEP were required anyway under the New Source Review Consent Degree AEP agreed to in 2007.

FACTS:

- **Of the units identified for retirement in AEP's announcement, only 2 units (totaling 615 MW) have deadlines to retire, retrofit or repower prior to 2014 under the NSR *Consent Decree*.** Another 1,440 MW are subject to requirements to retrofit, retire or repower by the beginning of 2016 or thereafter, which would be accelerated by the deadlines in EPA's proposed rules.
- **Of this 2,055 MW[1] of capacity named in the Consent Decree, NONE of these units were specifically required to retire. All units named within the settlement had the option of retrofitting or repowering in lieu of retirement.**
- **The stringency of the proposed EPA rules** makes retrofitting environmental controls to meet requirements of the Consent Decree no longer a cost-effective or viable option, and thus **forces additional retirements.**
- **The timing of EPA regulations (e.g. 2014) is much sooner than what was required under the Consent Decree, which allowed up until 2020 to complete all of the requirements**. The EPA regulations therefore will result in premature unit retirements and accelerated installation of controls, and additional rate and employment impacts.

Allegation: AEP is overstating retirement and employment impacts as the announced retirements were units or plants you intended to close anyway.

FACTS:

- Most of the announced units were expected to retire within the next 10 years, largely in anticipation of further environmental regulations.
- The timing of the proposed regulations will force us to **prematurely shut down or severely curtail the operation of ALL of this capacity in a very short time period (2013-15)**, resulting in additional electricity rate and employment impacts.
- **Additional units, not previously considered retirement candidates in this time frame, are also now candidates for retirement due to the stringency of the proposed environmental regulations.**
- **The stringency of all the rules in aggregate makes adding environmental controls no longer a cost-effective option.**

[1] Includes Sporn 5 (450MW), Conesville 3 (165 MW), Muskingum River 1-4 (840 MW) and 600 MW of TBD capacity.

Allegation: AEP executives have publicly stated that many of these units hardly operate to begin with, so there is no real impact to the units actually shutting down.

FACTS:

- While it is true that a number of these units do not run during portions of the year, **it is important that they still be available to operate to provide support for transmission grid reliability**, particularly in months of peak electricity demand.
- The **generating capability** of these units is needed to **meet regional minimum reserve/reliability requirements**, even if the units only operate infrequently. This is essential to ensuring that peak demands for power are met (particularly on hot summer days).
- Many of the units also provide **ancillary capability** to the grid in the form of congestion relief, voltage support, regulation (in the form of automatic generation control or "AGC"/pulsing) capability and 'black-start'/system restoration support. **These ancillary services help prevent blackouts and allow quicker grid restoration should a blackout occur**.

Allegation: Some of the coal-units subject to retirement are only running 5% of capacity.

FACTS:

- In 2010, AEP **only had ONE unit run at 5%** of capacity or less.
- **The average capacity factor (amount of capacity utilized) among the units that would be retired in AEP's compliance plan was 40%.**
- Additionally, many AEP units were underutilized in 2010 based on plan to reduce O&M costs for our customers by only operating units during peak demand months.
- This is a temporary plan, based on the near-term forecasted electric demand, which is still recovering from recession lows and low natural gas prices. **As demand picks-up, these units will be used more.**

Allegation: Most of the coal-units subject to retirement are on average 55 years old.

FACTS:

- This statement is factually correct, but the **clear intent of this statement is to misrepresent these units as too old to operate and in need of retirement.**
- In-terms of our nation's electric generating fleet, **units that are 55 years old still have significant remaining useful life.**
- **EPA's own modeling suggests that absent additional regulations, 1/3 of the coal fleet will have been operating more than 50 years by 2020, 15% of the coal fleet operating more than 60 years and many units will be still economic and operationally sound to run well past 70 years.**

Allegation: AEP is simply closing old, dirty plants that have done nothing to improve.

FACTS:

- AEP has made considerable and steady progress to reduce emissions over the past three decades. **Since 1990, AEP's emissions of NOx have been reduced by more than 80 percent, and SO_2 emissions have been reduced by more than 73 percent.**
- Under previous market-based emission reduction programs, such as the Acid Rain program, the NOx SIP Call and Clean Air Intrastate Rule (CAIR), the installation of control technologies is not mandated at each unit in order to achieve very substantial NOx and SO_2 emissions reductions. Rather, these national and regional emissions trading programs effectively allowed AEP to control the units within its electric power system in the most cost-effective manner, while providing the same environmental benefit. **As a result, more than 60 percent of AEP's coal-fired capacity is currently equipped with FGDs, SCRs, or both**.
- **As a result of the "overcontrol**" of emissions at some units, o**ther units were NOT required to retrofit FGDs or SCRs**.
- Emissions at the units without FGDs or SCRs, including the units now scheduled to retire, were still reduced substantially through burning lower sulfur coals to reduce SO_2 emissions and adding low NOx burners to reduce NOx emissions.
- AEP also intends to retire Big Sandy unit 2 and refuel Muskingum River unit 5, where the company has already spent hundreds of millions of dollars adding SCR equipment to reduce NOx emissions.
- Not only did these units install necessary and cost-effective emission controls, and switch to lower sulfur coal, they were in compliance as a direct result of emission averaging and controls placed on other units. . The lack of compliance flexibility in the current proposals will lead to much less cost-effective compliance options and premature closure of these units.

Allegation: These regulations are long overdue, and you have known about these rules since 1990. You didn't do what you should to be able to comply.

FACTS:

- Regulation of hazardous air pollutants (HAPS) for utility units is subject to a special provision that required U.S. EPA to conduct a study of the public health risks remaining after all other provisions of the 1990 Clean Air Act Amendments were implemented. EPA was only to regulate additional HAPs emissions if that study concluded that there was sufficient justification for doing so. EPA completed that study in 2000 and concluded that the ONLY HAP that merited additional control was mercury. EPA used this study as the basis for developing the Clean Air Mercury Rule, which became effective in 2005. AEP moved quickly to implement a compliance strategy for that rule once the requirements were known. CAMR was subsequently vacated as a result of appeals brought by environmental groups on a procedural issue. **Neither AEP nor the remainder of the utility industry had any knowledge of what**

level of HAPs controls would be needed until EPA released its proposed rule in March.

- In March, 2011, EPA released a proposed HAPs rule that for the **very first time** proposed emissions limits on all HAP emissions from utility units, including newly proposed mercury limits. It was not until the proposed HAPs rule was released, that AEP had any certain knowledge of what HAPs it might need to reduce, let alone the level of control.
- As regulated public utilities, AEP's operating companies can only secure approval from state Public Utility Commissions (PUCs) for cost recovery for emission controls that are required by final and effective federal or state regulations. It would not be prudent for states to allow emission control installations and increased customer costs without knowing that the controls will be able to meet the requirements of final and effective regulations AND be cost effective. AEP, as a matter of internal planning, does its best to determine in advance which units should receive controls and which units should be retired based upon unit-specific characteristics and the likely outcome of the rulemaking process. That is what we have done, and that is what the list of plant closures reflects.
- Some have criticized AEP for not "cleaning up" older plants already. These critics are ignoring the very substantial co-benefit HAP reductions achieved as a result of the cost-effective emission reduction actions AEP has taken over the last decade. It's also important to remember that state PUCs have an obligation to ensure that our service is provided at the lowest reasonable cost and would not approve rate recovery for investments that go beyond the requirements of existing regulations.