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July 2, 2009

Mr. G. Vinson Hellwig
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Ms. Mary Jo. Kunkle
Executive Secretary
Michigan Public Service Commission
6545 Mercantile Way
Lansing, MI 48911

RE: Electric Generation Alternatives Analysis for Proposed Permit to Install #317-07 (Wolverine Power Cooperative). Michigan Public Service Commission Docket #U-16000

Dear Commissioners and Mr. Hellwig:

This letter constitutes the comments of New Covert Generating Company, LLC ("Covert") in response to the invitation to the public to file comments on the Electric Generation Alternatives Analysis required by the Michigan Department of Environmental Quality ("MDEQ") and the Michigan Public Service Commission ("MPSC") pursuant to that certain Memorandum of Understanding between the MDEQ and the MPSC dated April 1, 2009 and the Order of the MPSC in Case #U-15958.

I. Wolverine Power Cooperative's' Electric Generation Alternatives Analysis Fails to Recognize That it is Possible to Construct Nothing and Still Meet Michigan's Foreseeable Generation Requirements.

The Electric Generation Alternatives Analysis submitted to the MPSC by Wolverine Power Cooperative ("Wolverine") on June 9, 2005 in Docket #U-16000 rests on a fundamental – and fundamentally flawed – premise that if Wolverine needs additional generating capacity something must be built. Such is not the case. There exist in Michigan opportunities to secure hundreds of megawatts of uncommitted power generation capacity already constructed and in operation. The leading example of such an opportunity is the 1100 megawatt baseload electric generating station owned by New Covert Generating Company located near Covert, Michigan.

The Covert facility, completed in 2004, is the newest, cleanest and most efficient power plant in Michigan, if not in all of the MISO footprint. Presently, the plant is typically utilized only a portion the time and has available generating capacity that could readily be sold to Wolverine.

Nowhere does Wolverine's Electric Generation Alternatives Analysis analyze, or even refer to, the option of contracting for power generated at the Covert facility or the purchase of all or an interest in the Covert facility, nor does it even acknowledge the opportunity to utilize existing generating resources.

These comments will attempt to supply the portion of the analysis which Wolverine failed to undertake in its EGAA of June 5.

II. Not to Construct Anything is Preferable to Building A New Generating Facility.

Construction is a very risky business. The bigger the project, the bigger and more numerous the risks undertaken in the name of a utility's captive customers.

It has been more than 20 years since any Michigan utility undertook to construct a baseload power plant, but many people still recall the horrendous cost overruns and delays suffered in the construction of the Midland, Fermi II and Belle River plants. Ratepayers and shareholders suffered hundreds of millions of dollars in losses in unanticipated construction costs and replacement power costs as a result of misfortune or bad management in the construction of those facilities.

Making use of an already-constructed power plant eliminates or sharply reduces:

(1) Commodity Risk. Volatility in the cost of commodities, raw materials and even labor is well known and well understood. Driven by fluctuations in demand, difficulties in supply and government policies, the costs of commodities such as steel, copper, concrete and exotic metals may fluctuate by 50% or 100% in a period of a year or two. Nothing better illustrates this principal than recent experience with petroleum, the cost of which has bounced between $50 and $150 a barrel and back in the span of less than 2 years. Such a risk in a project expected to stretch over 7 or 8 years is enough by itself to make any prudent person think of constructing a major generating facility as an option of last resort.

(2) Financing Risk. Employing existing resources reduces the risk associated with the unavailability and unexpected cost of capital, both debt and equity, to fund what can only be regarded as a major capital project. If recent events in commodity markets have provided a learning experience, recent events in financial markets have provided an even more dramatic lesson in the functioning of markets. Wolverine has not addressed its plans, if it has any, to raise capital to build the

proposed Presque Isle facility nor has the Cooperative discussed the expense of borrowing billions of dollars in the present borrowing climate. As this state has experienced in past in the context of major project construction mishaps, capital can quickly dry up or become inordinately expensive with or without fault on the part of the constructing utility. If Wolverine were to invest in an already-financed, constructed and operating power plant, like Covert, would reduce financing risk to a bare minimum.

(3) Design and Construction Risk. To invest in an existing plant reduces to zero the risk of a late completion of the facility and resulting increased costs of construction financing and replacement power. Power which must be replaced on relatively short notice and on relatively temporary terms can be much more expensive than the cost of power arranged on an organized, coordinated, long term basis. Moreover, each coal-fired power plant is custom designed and built. Until it is complete and operative, its actual operational performance is unknown. This is in contrast to a tested plant, like Covert, where fuel efficiency, emissions, noise and operating costs have been measured and all performance risks resolved.

(4) Policy Risk. To invest in an existing facility rather than undertake new construction is the surest way to avoid the risk of changing political attitudes and evolving policy. In 2009 we know there will be imposed upon emissions of carbon monoxide and carbon dioxide some substantial new cost or tax. Compared to years ago when Wolverine began to formulate a plan to construct new coal-fired capacity the risk associated with having to take environmental responsibility for such a decision has increased substantially. The expense of similar changes of government attitude in the construction of nuclear facilities was absorbed by Michigan in the 1970s and 80s with disastrous financial consequences to electric ratepayers. A natural gas fueled power plant like Covert is widely acknowledged to be environmentally preferable to coal and far less susceptible to expensive policy initiatives in the foreseeable future.

(5) Needs Risk. There is risk involved in projection of future utility loads. As few as 3 years ago it was generally believed that Michigan's electric utility load could be growing at a rate of 2% per year. A year later the commonly held belief was that that growth projection should be reduced to the area of 1%. As recently as last year near term annual growth projections were popularly stated in negative terms. It would be nothing short of miraculous to predict utility loads with any degree of accuracy for the years 2015 and beyond. There are financial consequences associated with under-or over-estimating generating capacity needs. To over-estimate, and therefore overbuild generating resources, is to invest expensive capital at essentially no return. To under estimate loads and under-build is to risk exposure to volatile short term markets for electric energy. Wolverine can avoid

these risks by looking to existing generating resources, whose capacity may be available on relatively more flexible, shorter term arrangements.

III. Circumstances Have Changed Since Wolverine First Conceived the Idea of Building a New Coal-Fired Power Plant

At one time a decision by an electric utility to build a coal-fired power plant rather than a natural gas fired power plant must have seemed like a natural and obvious choice given relatively modest costs of construction materials, labor and services, and the great price disparity between expensive natural gas and cheaper coal. Many planners did opt for coal-fired power plants in the first half of this decade.

Virtually all the premises on which such a decision would have been made have been undermined by succeeding events. In 2003-2005 it seemed intuitively obvious that the higher construction and operating costs of the coal-fired power plant would be more than off-set by lower fuel cost. But in the intervening years, the cost of coal and transportation have risen significantly, the projected costs of the construction of a coal-fired power plant have risen dramatically, the cost of financing a coal-fired power plant may prove to have become prohibitively expensive and the cost in dollars of the environmental consequences of operating a coal-fired power plant have ballooned.

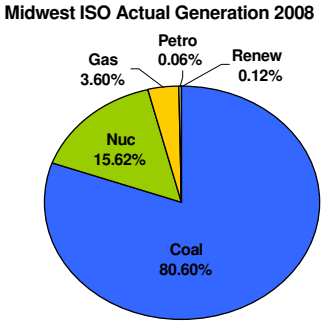
. The construction costs of new gas-fired generation facilities have increased over time as well, but are still much less expensive to build than coal-fired plants. This is particularly true of the New Covert generating power plant. Not only do natural gas combined cycle power plants have much lower capital costs in general, but the New Covert generating station, having been constructed in 2002-2004 and having previously been since sold at a price reflecting a discount to the actual construction cost may be the biggest bargain of all. At the same time natural gas commodity prices have fallen by as much as half in the years since Wolverine first conceived a new coal plant at Presque Isle.

Wolverine's plans have apparently remained unchanged while the world changed around them.

IV. Michigan is too Reliant on Electricity from Coal

Electricity production in Michigan, and in MISO, is heavily reliant on coal. The U.S. Department of Energy, Energy Information Agency agrees that "Coal dominates electricity in Michigan." [1] The following graph shows the heavy weighting toward coal in MISO. This heavy reliance on a single fuel represents an unwarranted and imprudent risk for Michigan.

[1] United States Energy Administration, Department of Energy, Information Administration, Official Energy Statistics from the US Government. http://tonto.eia.doe.gov/state/state_energy_profiles.cfm?sid=MI, at page 6.



V. Gas May be Cheaper

As noted above, natural gas generation requires much lower capital investments, less complicated and more reliable plants and lower operating costs and produces lower emissions. But for the belief that all these advantages are eclipsed by the cheapness of coal as a fuel, coal-fired power might not ever seriously be considered. The following table shows that with projections of future construction and fuel costs used by another current applicant for a permit to install, the lifetime cost of electricity from a new gas-fired plant is lower than a new coal-fired plant.

Table Covert 7
Comparison of Total Lifetime Production Cost of Electricity

NGCC New Build Cost ($/MWh)		
Capacity Factor	Gas CC without CO2	Gas CC With CO2
5%	$ 628	$ 646
10%	$ 339	$ 357
15%	$ 243	$ 261
20%	$ 195	$ 213
25%	$ 166	$ 184
30%	$ 147	$ 165
35%	$ 133	$ 151
40%	$ 123	$ 141
45%	$ 115	$ 133
50%	$ 108	$ 126
55%	$ 103	$ 121
60%	$ 99	$ 117
65%	$ 95	$ 113
70%	$ 92	$ 110
75%	$ 89	$ 107
80%	$ 87	$ 105
85%	$ 85	$ 103
90%	$ 83	$ 101
95%	$ 81	$ 99

Coal New Build Cost ($/MWh)		
Capacity Factor	Coal without CO2	Coal With CO2
5%	$ 1,229	$ 1,265
10%	$ 630	$ 666
15%	$ 430	$ 466
20%	$ 330	$ 366
25%	$ 270	$ 306
30%	$ 230	$ 266
35%	$ 202	$ 238
40%	$ 180	$ 216
45%	$ 164	$ 200
50%	$ 150	$ 186
55%	$ 139	$ 175
60%	$ 130	$ 166
65%	$ 123	$ 159
70%	$ 116	$ 152
75%	$ 110	$ 146
80%	$ 105	$ 141
85%	$ 101	$ 137
90%	$ 97	$ 133
95%	$ 93	$ 129

Even more persuasive is the fact that these figures compare new gas construction to new coal construction. But, as discussed above, construction equals risk and risk equals cost. A comparison of the true cost of new construction of a coal-fired plant – one which properly includes the full actuarial cost of risks of overruns, delay, poor operating performance and financial and changes in laws and regulations would result in a much wider cost advantage of an existing gas-fired plant.

VI. About the Covert Facility

The Covert generating facility is located in Southwest Michigan in Covert Township, Van Buren County. Completed in 2004, Covert is the newest baseload (that is, designed to run nearly continuously at full capacity) power plant in the state. Its generating equipment includes 3 "G" class natural-gas fueled combustion turbine/generators, 3 heat recovery steam boilers and 3 steam turbine/generators. This "combined cycle" configuration is designed to use what would otherwise be wasted energy to generate additional power, and results in Covert being the most fuel-efficient major power plant in Michigan.

Covert's 3 "trains" of turbines, boilers and generators permit the plant to be operated like 3 separate plants, each at full efficiency, or as 1 very large generator. As a high-efficiency clean fuel plant Covert's air emissions, per megawatt hour of electricity produced, are less than 50 % of even the newest, cleanest coal-fired plant.

The Covert plant also offers huge capital cost advantages over the proposed new coal-fired plants. The plant's owner, TPF II, L.P., an energy equity fund, invites utilities' proposals to contract for portions of plant capacity, take a co-ownership position or "toll" their own fuel through the plant to produce power. Several hundred megawatts of capacity can be made available on short– or long-term basis, as the plant is presently underutilized.

VII. Summary

The generating facility owned by New Covert Generating Company, LLC is in every functional aspect equal to or superior to the building of a new coal-fired power plant.

By securing capacity from Covert, Wolverine would:

- Reduce the risk of overruns in construction cost to zero.
- Reduce the risk of late completion to zero.
- Reduce the risk of unfavorable developments in capital markets or in Wolverine own quality as borrower or issuer of stock to a fraction of the risk to which ratepayers would be exposed if the company was required to raise more than $3 billion dollars.

- Truly bring ratepayer fuel-reliance risk into balance. As Table Covert 7 shows Wolverine's electricity is predominantly generated by burning coal. The company's plan to add coal-fired capacity, even coupled with plant retirements, will do nothing to "balance" risk. Rather it preserves the existing imbalance. But, if Wolverine adds to its generation resource mix 600 MW of gas-fired capacity, operating at achievable capacity factors customers would actually receive the benefit of a more nearly balanced mix of coal- and gas-fired power.

- Be the master of its own future generating resources.

New Covert Generating Company, LLC is grateful for the opportunity to offer these comments.

Very truly yours,

Howard & Howard Attorneys PLLC

Rodger A. Kershner

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