

Financing IGCC--3Party Covenant

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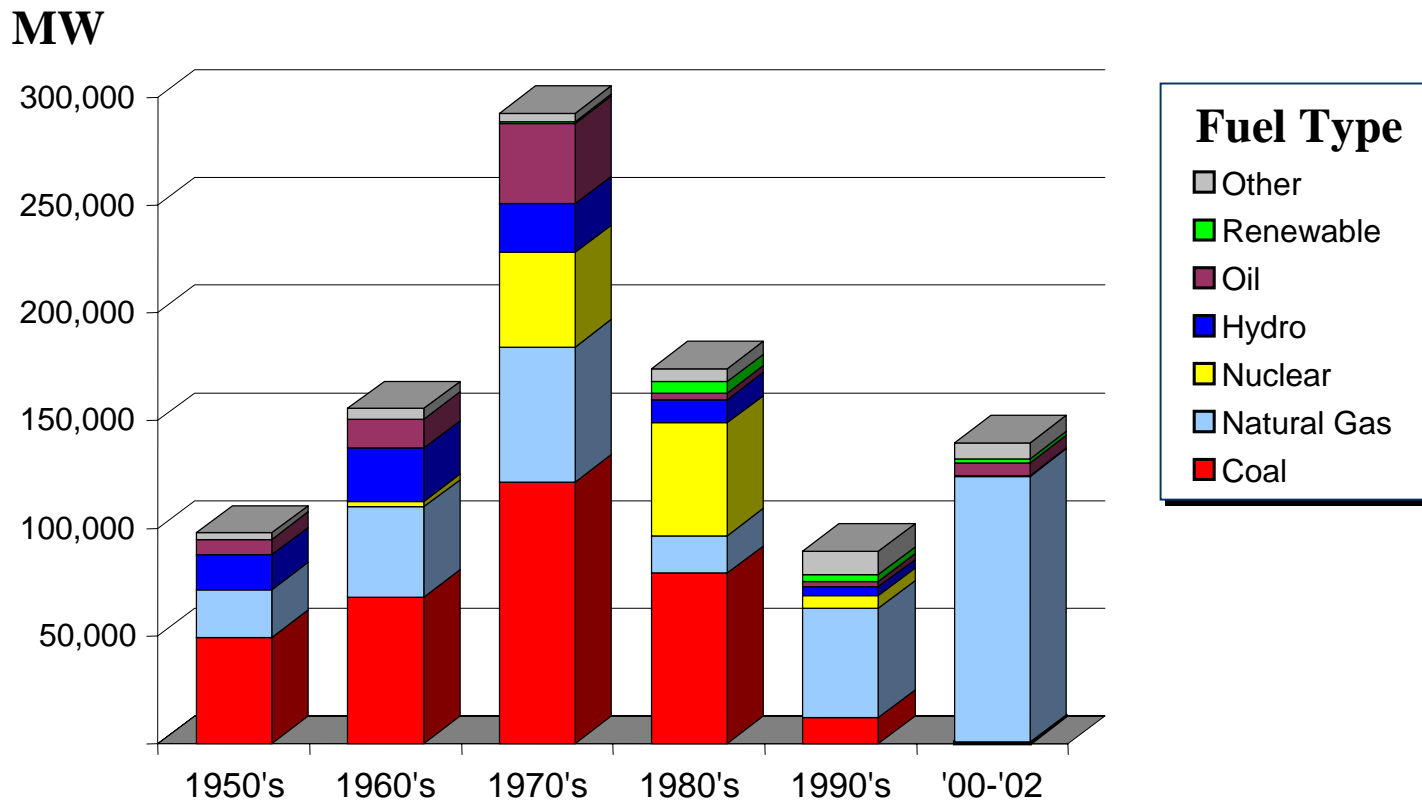
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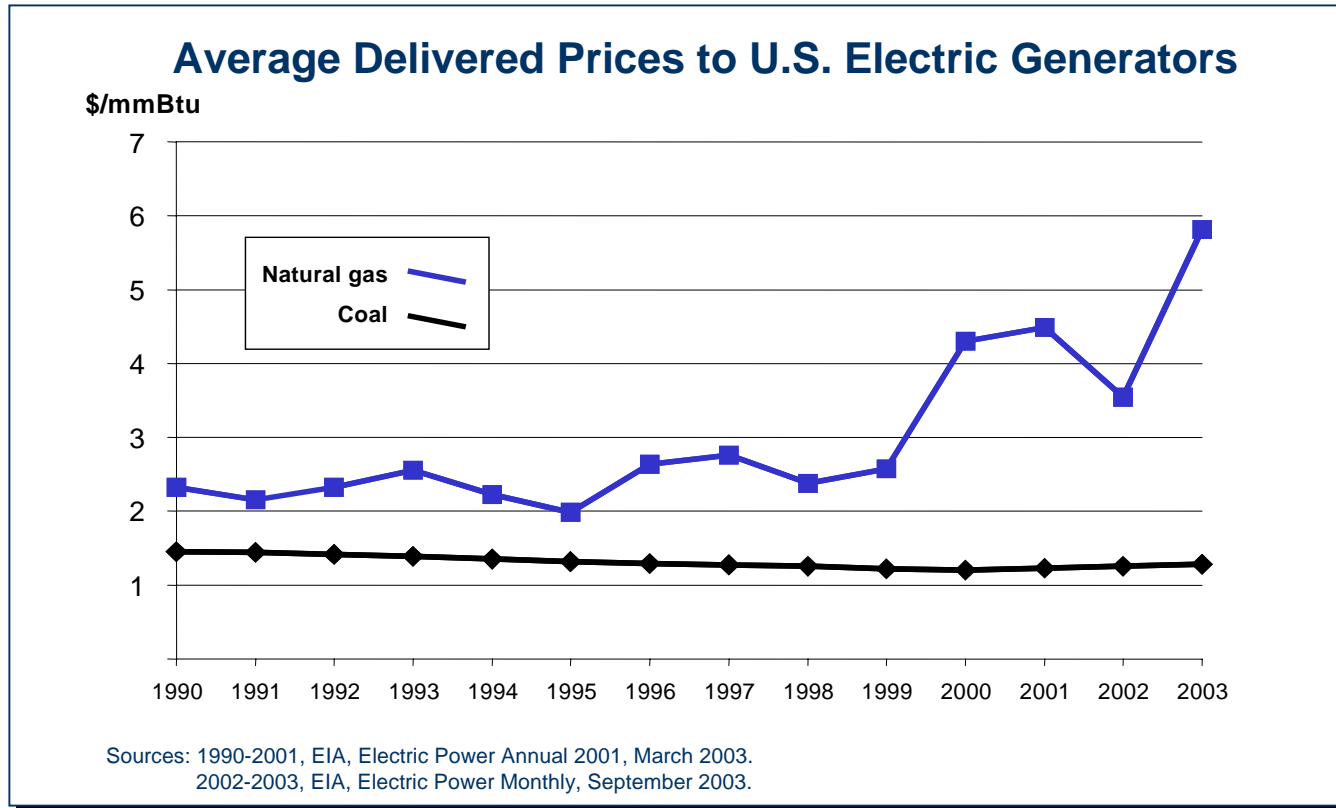
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Coal Construction Curtailed

U.S. Electric Generation Capacity Additions



Natural Gas Price Volatility



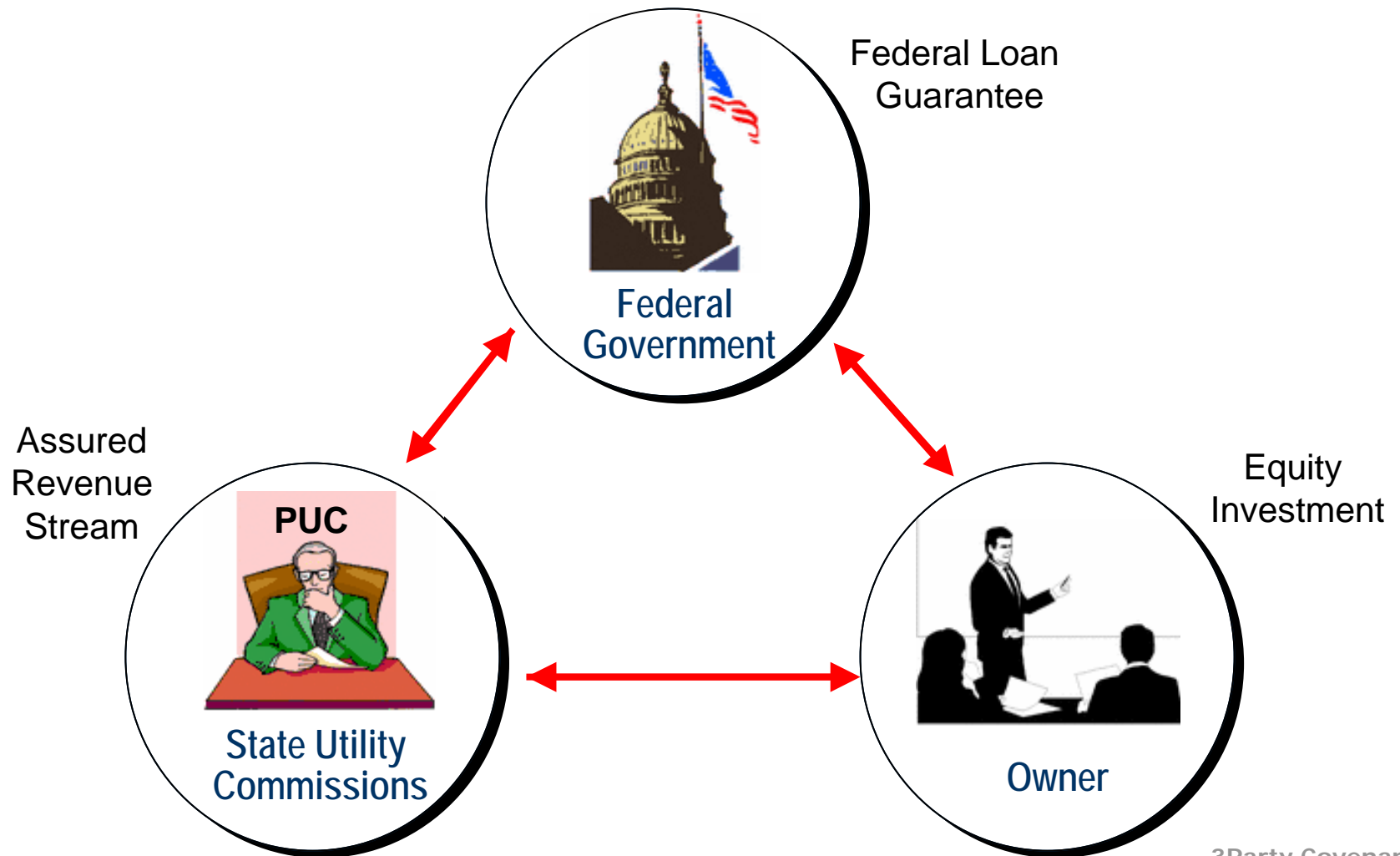
"The average credit rating for the electric utility sector is now firmly in the 'BBB' category, down from the 'A' category three years ago. Furthermore, prospects for credit quality remain challenging, as indicated by rating outlooks, 40% of which are negative."

Standard & Poors, November 11, 2003

IGCC Challenges

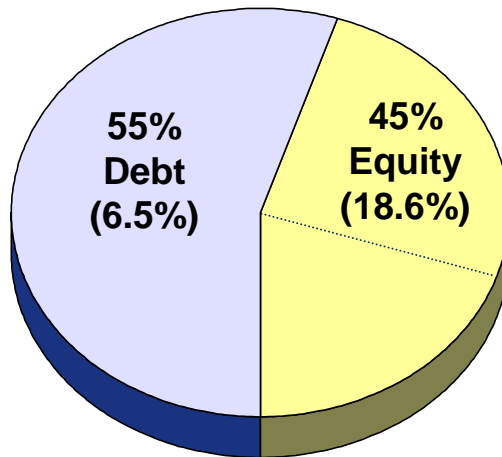
- **Raise ~\$750 million capital investment**
 - **Who writes the check?**
- **Deploy advanced technology not perceived mature**
 - **Who bears the risk?**
- **Provide competitively priced power**
 - **How can the cost of power be competitive?**

3-Party Covenant



Debt/Equity Ratio

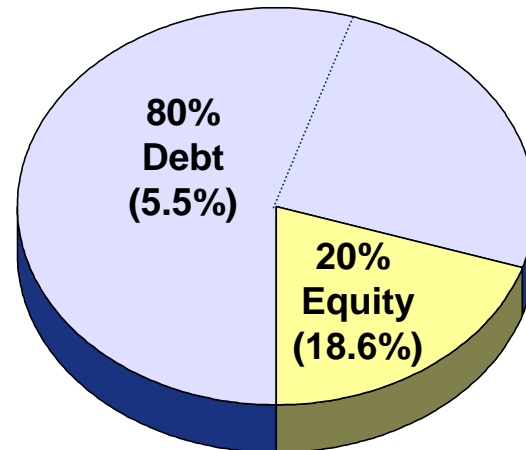
Traditional Financing



Pre-tax weighted cost of capital:

11.9%

3Party Covenant



Pre-tax weighted cost of capital:

8.1%

Cost of Energy

		Traditional Utility Financing			3Party Covenant
		NGCC (\$4.50 gas; 50% CF; 50% Eff.)	IGCC (2+1 gasifiers, (\$1,400/kW; 85% CF 39% Eff.)	PC (\$1,150/kW; 85% CF; 39% Eff.)	IGCC (2+1 gasifiers, (\$1,400/kW; 85% CF 39% Eff.)
Design and Construction					
1	Plant Size (MW)	500	550	550	550
2	Total Plant Cost (\$/kW)	\$510	\$1,400	\$1,150	\$1,400
3	Interest During Construction (CWIP*) (\$/Kw)	\$19	\$168	\$138	0*
4	Total Plant Investment (\$/kW)	\$529	\$1,568	\$1,288	\$1,400
Operation					
5	Fuel cost (\$/mmBtu)	\$4.50	\$1.24	\$1.24	\$1.24
6	Plant Efficiency (%)	50%	39%	39%	39%
7	Heat Rate (Btu/kWh HHV)	6,800.00	8,700.00	8,700.00	8,700.00
8	Plant Capacity Factor (%)	50%	85%	85%	85%
9	Annual Generation (MWh)	2,190,000	4,095,300	4,095,300	4,095,300
Financing					
10	Percentage Debt	55%	55%	55%	80%
11	Debt Interest Rate	6.5%	6.5%	6.5%	5.5%
12	Percent Equity	45.0%	45.0%	45.0%	20.0%
13	After tax Equity Return	11.5%	11.5%	11.5%	11.5%
14	Tax rate (Federal & State)	38.2%	38.2%	38.2%	38.2%
15	Pre-tax Equity Return	18.6%	18.6%	18.6%	18.6%
16	Pre-tax WACC	11.9%	11.9%	11.9%	8.1%
17	Levelized Carrying Charge	15.5%	15.7%	15.7%	10.4%
Estimated Cost of Energy					
18	O&M (cent/kWh)	0.25	0.80	0.80	0.80
19	Fuel (cent/kWh)	3.06	1.08	1.08	1.08
20	Capital (cent/kWh)	1.81	2.95	2.42	1.96
21	Cost of Energy (cent/kWh)	5.12	4.83	4.30	3.84

Roles of 3 Parties

	Provides	Receives
Federal Government	<ul style="list-style-type: none"> -- AAA credit -- Low interest rate -- 80/20 capital structure 	<ul style="list-style-type: none"> -- Energy/ environmental resolution -- National security -- Low risk loan
State	<ul style="list-style-type: none"> -- Assured revenue stream -- Prudence review -- Reduce financial risk 	<ul style="list-style-type: none"> -- Jobs (construction & mining) -- Cleaner air -- Competitive electricity prices
Owner	<ul style="list-style-type: none"> -- 20% equity -- Leadership 	<ul style="list-style-type: none"> -- No coal stigma -- Assured equity return -- 80% non-recourse loan

State PUC Role in 3Party Covenant

A. State PUC review and approval of project

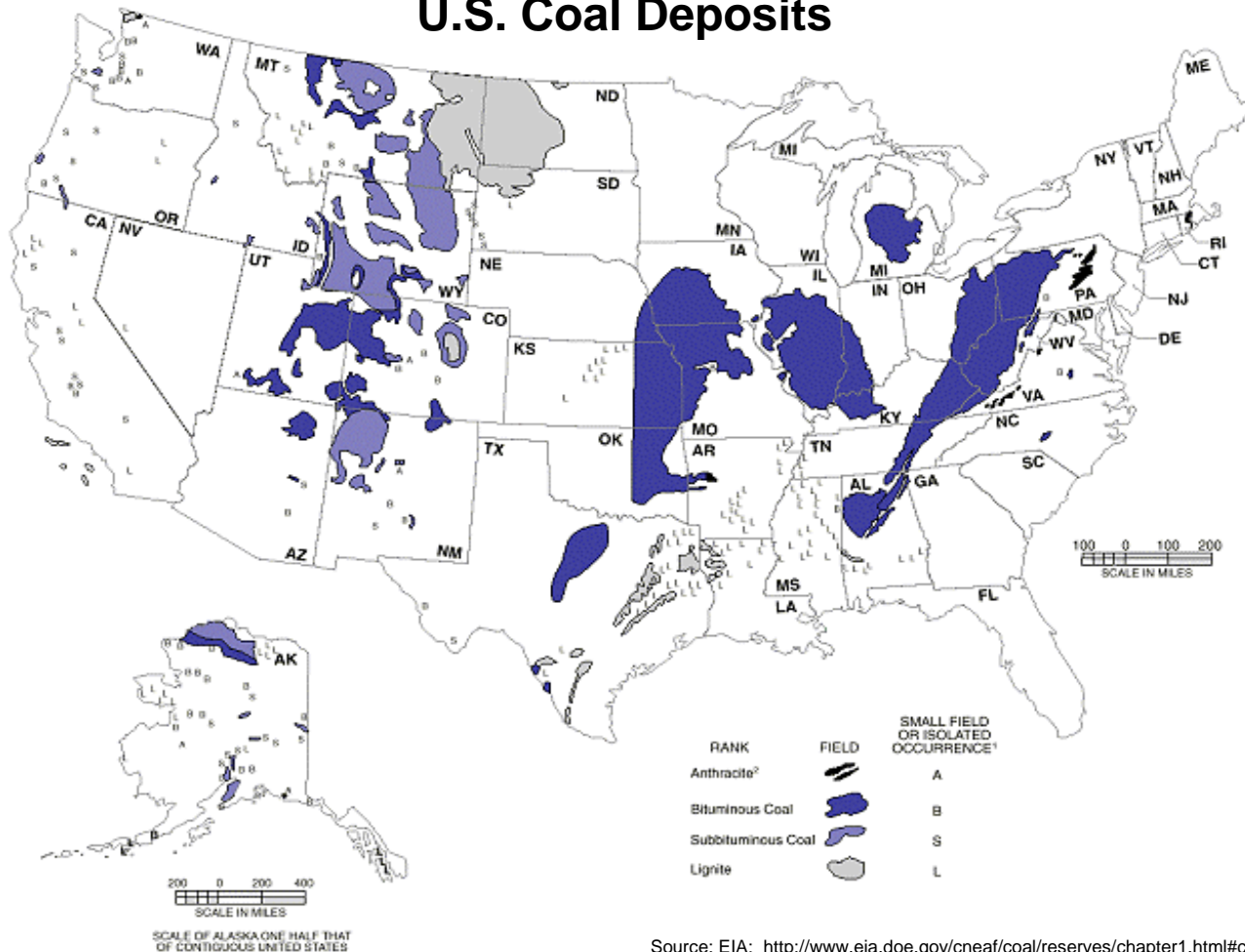
1. **Before construction, Certificate of Public Convenience and Necessity**
2. **During construction, prudence review of construction costs and CWIP**
 - Certainty—recovery of approved construction costs after completion or termination cannot be challenged
3. **After construction, adjustment clause for cost of capital, depreciation/amortization, and operating costs**

B. Adjustment clause mechanism

1. **Regulated States—modifies retail electric rates**
2. **Deregulated States—modifies non-bypassable wires charge**

“Coal States” Benefit

U.S. Coal Deposits



Source: EIA; <http://www.eia.doe.gov/cneaf/coal/reserves/chapter1.html#chapter1a.html>

State Enabling Laws

- **Regulated States**
 - **Some existing laws enable 3Party Covenant**
 - **Legislative directives for PUC incentives to promote coal utilization (CWIP, etc.)**
- **Deregulated States**
 - **New legislation required to accommodate 3Party Covenant program**
 - **Non-bypassable charge similar to deregulation transition treatment**

Pending Energy Bill

- **Authorization for loan guarantees for IGCC**
- **Authorization for \$2 billion of appropriations plus 17.5% ITC**
 - **Federal budget scoring based on rating agency assessment of risk differential**
 - **Potential for low scoring with appropriations if PUC establishes assured revenue that is recognized by rating agencies**
 - **Potentially \$600 million authorized to be used to score IGCC loan guarantees**
 - **Number of projects depends on discount**
- **Based on future OMB/Congressional appropriations**

Window of Opportunity

- **Federal loan guarantee and PUC programs**
- **Specific IGCC proposals**