

Testimony of David Campbell, Luminant CEO
Before Senate Natural Resources Committee
Tuesday, September 13, 2011

Good morning. My name is David Campbell, and I am the CEO of Luminant. We are the largest generator in the state, and we are proud of our long history of providing safe, reliable, and affordable electric generation to Texans. We are also the largest lignite mining operator in the state.

We employ more than 4,400 people across Texas. I am proud to represent our dedicated and highly capable employees here today.

I am here to explain the requirements of the U.S. Environmental Protection Agency's (EPA) Cross-State Air Pollution Rule, known as CSAPR, and the steps that Luminant will have to take to comply with CSAPR by the deadline of January 1, 2012.

Luminant operates more than 15,400 megawatts (MW) of generation in Texas through a diverse portfolio of nuclear-powered, gas-fueled, and coal-fueled power plants. We are also the largest wind energy purchaser in Texas, and among the largest in the nation. Coal is currently a critical source of energy for Texas, providing approximately 50 percent of Luminant's generation, and 40 percent of electricity generation in the state.

CSAPR is intended to reduce emissions in upwind states that significantly impair the ability of downwind states to attain, or maintain, federal clean air standards. In the draft version of the rule released last year, EPA concluded that Texas did **not** belong in the rule's annual emissions programs because it found that Texas emissions have **no** significant downwind effect on other states. Then, this summer — without providing notice and an opportunity for Luminant and other Texas stakeholders to comment — EPA abruptly reversed its position. The final rule issued on August 8, 2011, requires Texas to take drastic steps to severely reduce annual NO_x and SO₂ emissions in less than five months.

Let me be clear: We support continued efforts to improve air quality across the state and nation, and we've put our money and actions behind efforts to do that. Since 2005, for example, Luminant has achieved a 21 percent reduction in SO₂ emissions, while at the same time increasing generation by 13 percent. In 2007, Luminant committed to a significant voluntary program to reduce the emissions from its legacy coal-fueled power plants. Luminant's investments - and those of others in Texas - have paid off. According to EPA's Clean Air Markets Division, emissions of both SO₂ and NO_x have steadily decreased in the Texas power sector from 1995 to 2010 by 26 percent and 62 percent respectively. And the Texas power sector's emissions are **significantly better** than the U.S. average - 24 percent better for SO₂ and 42 percent better for NO_x.

However, as finalized by the EPA, this rule imposes severe limits on Texas power plants, and requires compliance in an unprecedented timeframe of less than five months. CSAPR requires that Texas reduce its SO₂ emissions by 47 percent. CSAPR further requires that Texas reduce its NO_x emissions by 8 percent.

Since CSAPR was announced, Luminant teams have been working around the clock to identify and analyze all options for compliance. Our goal was to find a plan that would minimize the

negative consequences to the state's electric reliability and our employees. We explored all options, including switching fuel sources, reducing power generation, purchasing emissions allowances, installing new equipment, upgrading existing equipment, implementing new emission reduction technology such as dry sorbent injection, and many other options.

We have run dozens of scenarios through multiple analytical models to determine how the company can comply with CSAPR with the least adverse effects. Despite our best efforts to avoid it, every scenario we tested results in substantial and irreparable harm to the company, its employees, and the Texas consumers who depend on reliable and affordable electricity. We have continuously researched and refined the models' inputs to verify that each model's assumptions are correct and confirm that we have no other options. I regret to say that we do not.

There are very few possible solutions.

- Fuel switching is not a solution - switching from lignite coal to PRB coal means elimination of lignite mining jobs. And switching to natural gas is not an option - we cannot run natural gas in the existing facilities, and building new units takes time not available under CSAPR.
- Installing additional emissions controls is not a solution - the minimum standard timeline for permitting, constructing and installing new controls is 2-3 years, and we were given less than 5 months.
- Increasing scrubber utilization is not a solution - the existing scrubbers alone cannot achieve the required reductions.
- Purchasing additional emissions allowances is not an immediate solution — and this is an immediate problem. In the near term, the relevant markets for CSAPR emissions allowances will be very short and there will be far more demand than there is supply. Plus, by design, CSAPR sets limits on the use of trading as a compliance option.

We have met, and will continue to meet, with the EPA to express our concerns and explore solutions. We are not alone in our concern about this rule, and its effects on Texas. A broad array of elected officials from both sides of the aisle have contacted the EPA, the Office of Management and Budget, and others in the Executive Branch to express their serious concerns about the lack of notice provided to Texas, the lack of opportunity to comment on the rule, the rule's impermissible requirements, and the short deadline. Those leaders include Democrats and Republicans in the state's Congressional delegation, Democrats and Republicans in the State Legislature, as well as community leaders, consumer advocates, and many more.

Unfortunately, despite the broad bipartisan concerns and the hundreds of hours of analysis and discussion, the rule's short timeline makes it necessary that we take immediate operational steps to comply with the rule by the January 1st deadline.

Yesterday, we met with employees to inform them that as of January 1, Luminant must:

- Cease operations at three Texas lignite mines in East Texas; and
- Idle two major electric generating units in East Texas - Monticello Units 1 and 2.

We will also need to implement several other actions to reduce emissions, including making \$280 million of investments in our facilities. Even with that large investment, the changes will

result in the elimination of between 400 and 450 full-time jobs by early 2012, and the eventual elimination of more than 500 jobs.

This will be a heavy blow to Luminant, its employees and its employees' families. It seems so unfair that the very employees who worked tirelessly through the hot Texas summer to ensure a reliable power supply are the same employees who are bearing the burden of CSAPR's consequences. Our employees are hard workers, and good people. Many Luminant employees have worked in these jobs for decades. And these jobs are typically among the highest paying and most sought-after, stable jobs in their communities. During these difficult economic times, job opportunities for these workers may be extremely limited and perhaps nonexistent, particularly in the rural communities where these workers live, communities that will be hard hit by these closures required by the EPA.

In addition to the loss of jobs, other negative consequences of CSAPR's short deadline and drastic reductions include:

- Loss of tax revenue in communities surrounding the affected Luminant facilities - revenue that totaled more than \$25 million in taxes last year.
- Loss of 1300 MW of electricity generation — and we learned during this long, hot summer that those are megawatts that this state can't afford to lose
- Reduced grid reliability at a time when Texas has consistently been breaking peak electricity demand records which has led ERCOT to predict future rolling blackouts.
- Increased electricity prices - the reduced supply of generation will lead to higher wholesale electricity prices in Texas. And, of course, higher wholesale prices in ERCOT will drive up retail prices for consumers.

If we had an adequate timeframe for compliance and more reasonable compliance standards, we could avoid these harms. It is for these reasons that Luminant is left with no choice but to ask a federal court for a stay of CSAPR while Luminant's legal challenge to the rule is resolved. A stay is the only way to avoid the irreparable harms to Luminant, its employees, the communities where we operate, Texas consumers, and the state itself if CSAPR is allowed to take effect as currently written.

Luminant supports continued efforts to improve air quality, but we cannot support CSAPR's timing, process, or methodology. While we are making preparations to meet the rule's compliance deadline, we are also pursuing administrative steps with EPA and a legal challenge to protect our facilities and employees, and to minimize the harm this rule will cause to electric reliability and prices in Texas.

Let me conclude with this: No one would be happier than Luminant if changes are made to this rule that will allow us to keep our mines open, our plants online, and our people employed. We don't make these decisions lightly. We will work around the clock and keep our door open to the EPA to continue our efforts to find a solution that minimizes job loss.

I'd be happy to take questions.