



Intermountain Power Agency **Annual Meeting Report**

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General Manager
December 7, 2010





HOUSTON, 17th September 2010 –


“The long-term economic viability of much of the coal-fired generation facilities across the U.S. is at risk, according to Wood Mackenzie’s latest analysis of potential premature coal plant retirements. The power industry is facing unprecedented challenges, as regulatory and policy forces in conjunction with lagging economic activity align, resulting in significant uncertainty over the future of much of the existing coal fleet.”

A recently published analysis by Woods Mackenzie addressed potential premature coal plant retirements:

The long-term economic viability of much of the coal-fired generation facilities across the U.S. is at risk. The power industry is facing unprecedented challenges, as regulatory and policy forces in conjunction with lagging economic activity align, resulting in significant uncertainty over the future of much of the existing coal fleet.


Is the sky falling when it comes to coal-fired generation?

Whether you believe this analysis or even contemplated the issue, their analysis encapsulates what IPA and IPP Purchasers have been intently considering over the past 12 months.




HOUSTON, 17th September 2010 –

“... over the last decade, less than 30 gigawatts (GW) of power plants have been retired in North America, mostly representing old gas and oil-fired steam generators. Over the next 10 years retirements could double to 60 GW, mainly from coal plants.”




The study continues *“... over the last decade, less than 30 gigawatts (GW) of power plants have been retired in North America, mostly representing old gas and oil-fired steam generators. Over the next 10 years retirements could double to 60 GW, mainly from coal plants.”*

Retirements of Coal Generation or outright abandonment of planned coal generation far outstrips new coal generation today.



IPP – more than a coal generating facility

- Location, location, location
- 2 major transmission systems
- Land holdings
- Water rights = OPPORTUNITY
- Rail /Pipeline access
- Trained workforce



We have always viewed IPP as more than a coal generating facility.

The Project is located on a major regional energy corridor, owns and operates two major transmission systems, owns substantial land holdings and water rights, has excellent access to rail and pipeline transportation networks and a well trained workforce on site.

Many of these assets provide opportunities for continuing development of energy resources throughout the region.

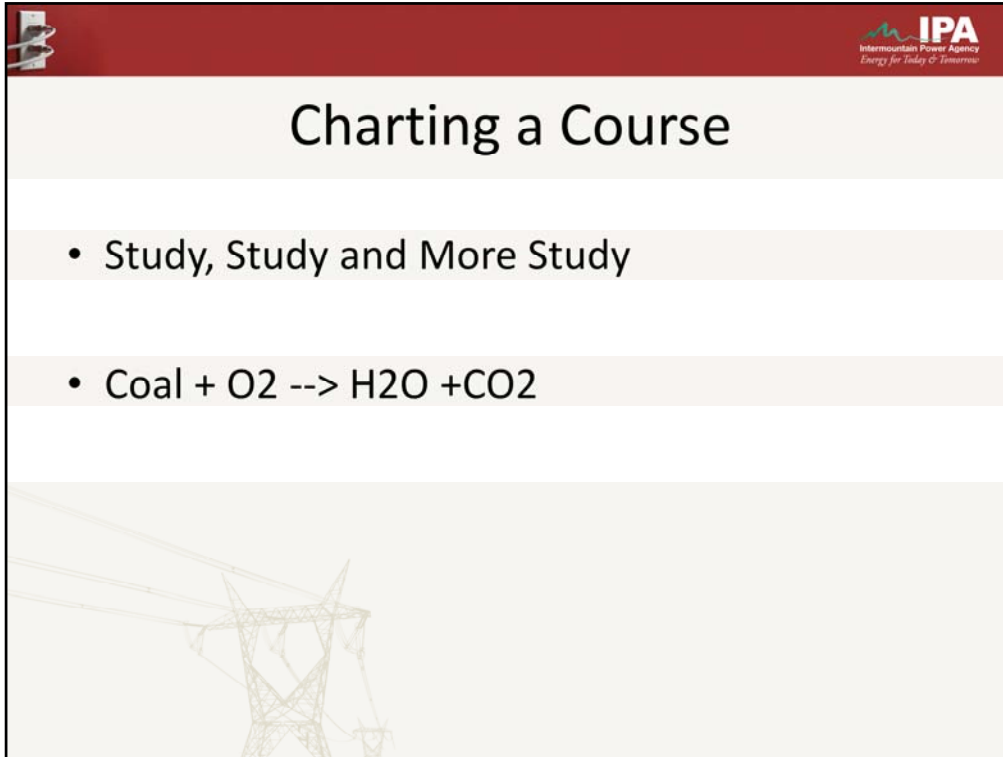
We already make a portion of our transmission available for renewable energy projects.



However, because of several external factors threatening the cost of coal-fueled generation, today's focus is on coal's future. And, its future will be determined on economics.

It would be great if getting clean coal was this easy (and cheap)...

But... if external factors impose too high a cost, generators are forced to either find lower cost alternative generation or mothball or modify existing coal plants.




The slide features a dark red header with the IPA logo (Intermountain Power Agency, Energy for Today & Tomorrow) in the top right corner. The main title "Charting a Course" is centered in a light beige box. Below the title, two bullet points are listed in a light beige box: "• Study, Study and More Study" and "• Coal + O2 --> H2O +CO2". The bottom half of the slide has a light beige background with a faint, stylized image of a power transmission tower and lines.

IPP has undergone a fairly rigorous study by its purchasers in balancing IPP’s historically reliable, low-cost, base load energy against high costing regulation targeting coal.


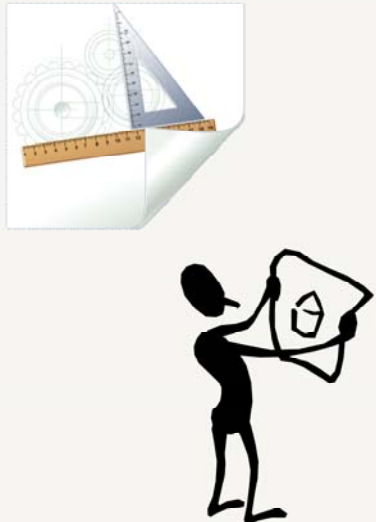
Because IPP embodies a very large financial and energy resource commitment, we have been searching for answers to many issues raised in the regulatory arena, fuel procurement and issues embedded in the resource plans of our Purchasers.

Although, we are confident we can plot a successful formula for our Project, we are faced with several variables, such as pending legislation and regulation, that leaves us and many other utilities like us without a clear picture of the road ahead.

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3 P's: Tools to Help Chart a Course

- **PLANNING**
- **POSITIONING**
- **PROACTION**






The efforts of our Participants over the past year in charting IPP's future may be more easily described under three broad categories:

- **Planning**
- **Positioning**
- **ProAction**




P₁ Planning

- On-Going Contribution to Economy 
- No Mo Coal for California ☹️ 
- Resolve the Future -- TODAY 

PLANNING for IPP’s future is key to IPA’s fiduciary role as owner. Ted has mentioned some ways of how the Project has become important to Utah’s economy. For this dimension, the Board has had to carefully consider how IPA can best ensure the Project continues to make a vital contribution to our state.



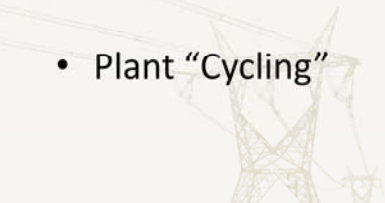
[No Mo Coal]. Consideration must be given to the circumstance that our California partners are barred by California state law from purchasing coal generation after current power purchasing agreements expire. We’ve all gotten emotional over this – but we have to move on.

Any plan adopted by the IPA Board would require flexibility to use the Project's extensive assets [all of which are under contract to the IPP Purchasers] to be utilized for energy resources in addition to coal. And, plans for using those assets must begin now. Sixteen years to the expiration of the Power Sales Contracts in 2027 is not a long time in the world of energy resource planning and development.



Internal vs. External Pressures

Project-Specific Issues

- Dismantling Costs 
- STS Line
- Harvesting of the Plant 
- Plant “Cycling” 

Criteria IPA has had to consider in planning the future of IPP falls into two general groups; Internal Issues or those that are Project-specific and External Pressures:

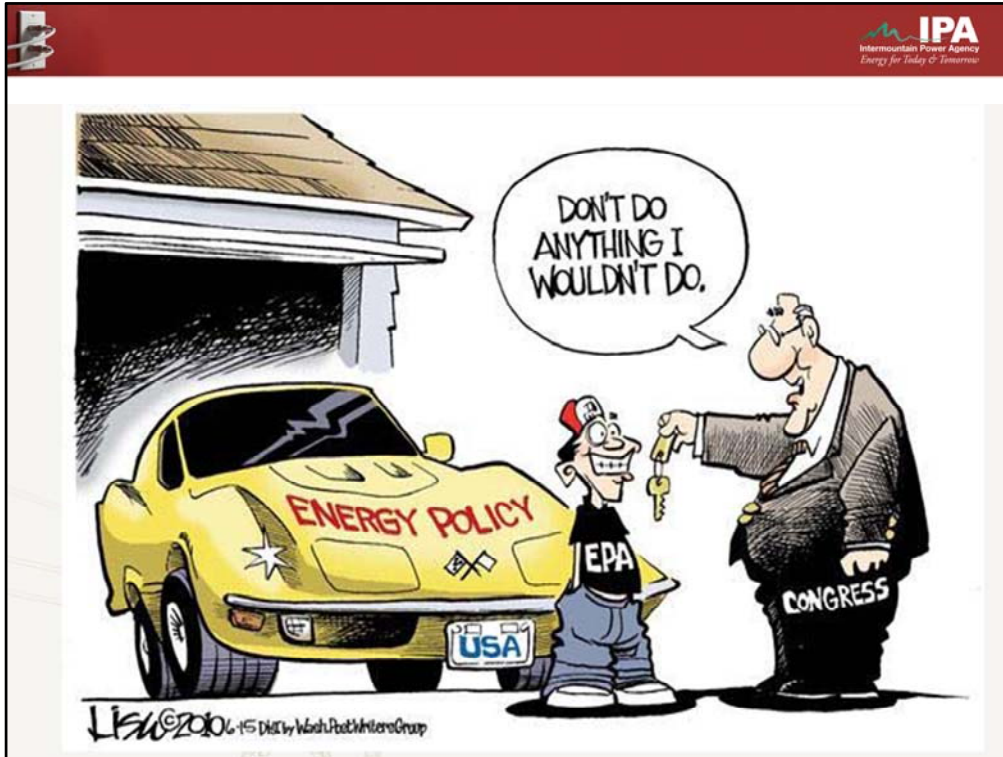
The Project-Specific Issues include:

Dismantling costs. It’s possible that IPA could be left with depreciated coal generating facilities in 2027. Our contracts provide little means of billing our purchasers for costs if we were required to dismantle the facilities. This is a serious uncertainty for the IPA owners.

We have a major transmission line to CA. Although a valuable asset to IPA, we know that IPP cannot send coal generation to CA beyond 2027. What , then, will we be transmitting?


Harvesting of the plant is an issue – as contracts get nearer to expiration, will purchasers be willing to spend larger amounts of dollars on renewals and replacements or merely allow the facilities to die a slow death?

Plant cycling – as renewables come on line, concerns for cycling the plant to follow intermittent load and its attendant wear and tear on the plant are at issue.



As we look at some of the External Pressures facing the Project, this slide captures very well what Congress has done for or should I say “to” all of us under the Clean Air Act.


The EPA has been handed the keys to a very powerful regulatory vehicle.



External Pressures

External Costs


- Carbon Tax or CCS
- Coal Ash
 - \$400 MM plus \$100 MM/yr
- Mercury MACT
 - Est. \$100/kW -- \$180 MM
- HAP Standards (ditto cost)
- SCR's ?? (\$100's MM)



Perhaps an easier way to look at the External Pressures are in terms of their threatened potential costs.

- For months and months we've been seeing trial balloons on Carbon Capture and Sequestration and Carbon Tax. A Carbon Tax of \$40 would about double the cost of IPP Operations.
- EPA regulation of Coal Ash – now designated a “hazardous waste” (\$400 MM plus \$100 MM annually)
- Potential EPA Mercury MACT (est. \$100 per kilowatt -- \$180 MM)
- HAP Standards (est. equivalent in cost to Mercury MACT)
- Potential for adding SCR's (costs could be in \$100's MM)


These external pressures to IPP are either threatened or pending. Another way I look at them is, they're not in the house yet but they're roaming around on the front porch.




IPP Strategic Plan

(Dec 1, 2009)

IPA's statement for the strategic objectives is that
"we view IPP as a long term project and plan to manage it through 2044 and beyond."*



*2044 is the current statutory life of IPA




The IPA Board has made a statement...

"we view IPP as a long term project and plan to manage it through 2044 and beyond."*

Our staff has viewed this as scripture and we've kept this statement as our guide in the planning process.

Following are some slides from my report last year that illustrate how we've done with the planning effort.




IPP Strategic Plan (Dec 1, 2009)

- During the planning process our main focus is on the Project, not the Participants
- That the Project will remain a coal-fueled generating facility
 - Significant coal acquisitions under long-term contract
 - Maintenance and capital additions will keep the plant's effective life at 8 to 10 years (No harvesting of the plant in the later years of the contract)

Last year I stated that “During the planning process our main focus would be on the Project and not the Participants.” What that means is we could not get lost in trying to find solutions for any purchaser or class of purchasers while solving for the Project’s long term viability. In other words, the Project is the most important consideration.

I also stated “That the Project will remain a coal-fueled generating facility”. And, that we wanted:

- **Significant coal acquisitions under long-term contract**
- **Maintenance and capital additions will keep the plant’s effective life at 8 to 10 years (No harvesting of the plant in the later years of the contract)**



IPP Strategic Plan (Dec 1, 2009)

- Operations to continue after the expiration of the Power Sales Contracts -- IPA must know:
 - Who IPP purchasers post 2027 are by no later than 2015 – sooner, if possible
 - Power marketing and remarketing plan
 - What are Californian’s expectation of STS and NTS usage (whether in or out of the Project)
- Dedicated Dismantling Fund
- Develop Stronger Governmental Advocacy

IPA has been intimately involved throughout the Planning Process to ensure these points have not been set aside or overlooked.

For example, we now have a good idea who of our purchasers would like to stay in the Project.

We’re already into the phase of determining what market exists for coal-fueled energy.

We’ve had some good discussion on transmission and hope to have some options in the coming months.



We’ve discussed a dedicated dismantling fund and have had a favorable response from our California partners to reach a workable solution.

And, we’re going forward with more communication with our government officials.

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Options for Extending IPP's Life

- Continuing with Coal-fueled Facility
- Repower all or part of the Project (other fuels)
- Some Combination





Options for extending the life of the Project beyond 2027 include continuing operation as a coal-fueled electric generating station. We also must consider the possibility of repowering all or part of the Project to use other fuels, or some combination of the two. A conservative risk profile for Climate Change legislation warns that Repowering may become an economic necessity at some point in time.

We need to remind ourselves that because IPP is such a tremendous facility we are blessed with options for future development potential.



P₂ Positioning

- IPA Board has approved a Plan (“Renewal Plan”) that will:
 - Create Opportunities to extend IPP’s Life
 - Allow ALL Current Purchasers to Participate




POSITIONING (P2)

Positioning the Project for continued operations is a critical next step. The IPA Board has approved a plan (call it a Renewal Plan for now) that will create opportunities to extend the life of the Intermountain Power Project and allow all current power purchasers to continue to participate if they desire.

We have candidly referred to this step as continuing the marriage (versus the alternative).

Adoption of this renewal plan that will extend the Project's life beyond its original design is a significant milestone in the history of the IPP.



“Renewal Plan”

- **A final Renewal Plan will be developed by mid 2011 for consideration by all of the Project participants.**

- **With the information we have today, upon which we base our decisions, the Project is expected to continue operating as it does now until 2027.**


Based on the outcome of our studies, a final Renewal Plan will be developed by mid 2011 for consideration by all of the Project participants.

This seems like an *aggressive* schedule, but it indicates that the Project participants are motivated to chart a definitive course for extending the life of IPP.

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P₃ Proaction

- Educate our Legislators to real costs of regulation
- Ask for their help

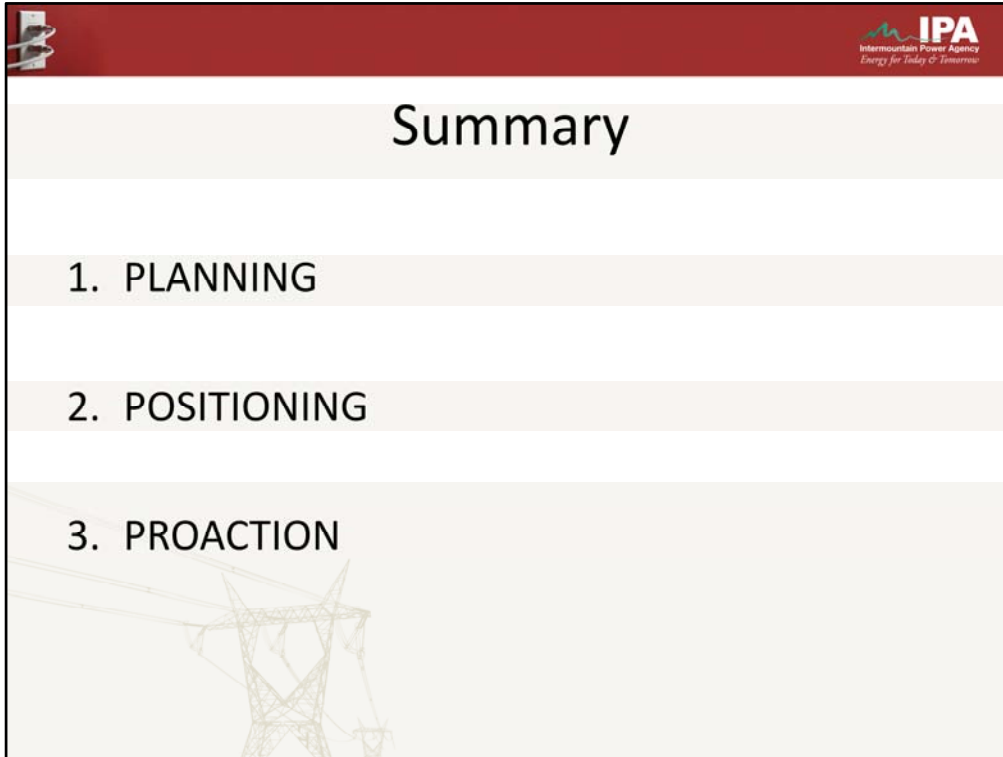


P3. ProAction will also symbolize our future course.

Being PROACTIVE will mean that we need to continually educate our representatives in government to our circumstances. We need to assist our legislators in being better at separating the idealistic from the realistic when it comes to regulation.


And, we won't be shy in asking for their help when we need it to create opportunity that will allow us to continue serving as an important provider of competitively priced energy in the American West and as an important contributor to Utah's economy.

IPA will also be PROACTIVE in meeting with our Utah Muni owners in the days ahead providing details that will allow them to make an informed decision about future participation in IPP for their communities.





To Summarize, IPA will continue in the days ahead to wrap up our PLANNING and POSITION the Project to continue its operations beyond 2027.

Our PROACTION dynamic towards our lawmakers and regulators should build a needed rapport that will aid efforts in continuing a successful Project.



IPA 2010 Annual Meeting Notes:

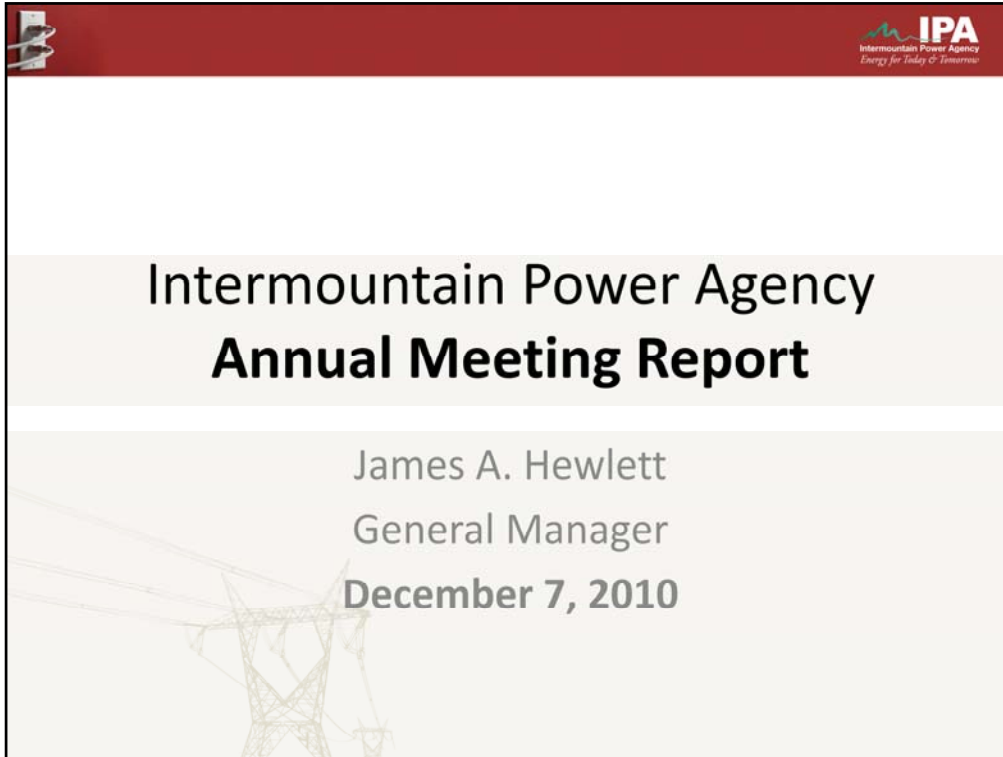
- IPA web site: www.ipautah.com
 - Annual Report with audited financials
 - Newsletters
 - System Maps
 - Other



For your information:

The IPA Annual Report for 2010 is available On-Line at the Agency's web site – www.ipautah.com.

The Annual Report contains a summary of financial and operational milestones, as well as audited financial statements for the project. System maps, IPA Newsletters and a wealth of statistical information are also included.



I thank you for attending our Annual Meeting.

Our next segment will be a panel of presenters. Dan Eldredge, IPA's Assistant General Manager will introduce and moderate the panel. We will post their presentations on our web site if you would like to access the information.

I thank them all in advance for their time and effort in presenting information of relevance to the Project.

Dan.