



Adviser urges cost cap for Southern Co IGCC plant

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HOUSTON, Feb 3 (Reuters) - An outside consultant on Wednesday recommended that Mississippi utility regulators set a firm cost cap if they allow a Southern Co <SOÛN> unit to build a \$2.4 billion advanced coal plant in Kemper County.

Mississippi Power Co wants to build a 582-megawatt integrated gasification combined-cycle (IGCC) plant that will burn Mississippi lignite to expand its baseload generation as it contemplates shutting other aging coal plants.

Craig Roach of Boston Pacific Co, hired by the Mississippi Public Service Commission to evaluate the economics of the utility's coal proposal against purchases from natural gas-fired power plants, said the Kemper IGCC project could be the best option in the long term.

Over a 40-year period, the Kemper County plant would likely be more economical for rate payers than purchased power contracts, but only if the Kemper County IGCC plant can be built without serious cost overruns, Roach told regulators.

Over a 10- to 20-year time frame, purchased power contracts provide could lower costs for rate payers, depending on the direction of gas prices, Roach said.

"If the numbers persuade you to pick Kemper, I strongly recommend that you get (cost) guarantees," Roach said.

A lack of cost caps meant utility customers were forced to pay billions in overruns during construction of nuclear plants across the United States more than 20 years ago, Roach said. "I would not go forward without cost controls," he said.

Given contingency funds built into Mississippi Power's \$2.4 billion estimate, "I would think the company could guarantee (a price)," Roach said.

Commissioner Leonard Bentz said he had no intention of "signing a blank check" for the coal project.

The most heated testimony in the hearing has revolved around future natural gas prices and the difficulty in obtaining long-term, fixed-price gas contracts.

Independent power producers, including Calpine Corp <CPN.N>, KGen Power and Entegra Power Group, oppose the coal project due to abundant available gas generation in the Southeastern U.S., much of which now sits idle.

Environmental groups oppose the project because it will emit too much pollution despite Mississippi Power's pledge to sequester a portion of the emissions of carbon dioxide, a greenhouse gas blamed for global warming.

IGCC technology uses a gasification system to convert coal into a synthesis gas that is processed to remove sulfur, mercury and ash before being sent to a traditional combined cycle power plant to produce electricity.

A number of IGCC projects, including another plant proposed by Southern Co, have been canceled in recent years due to rising costs and regulatory uncertainty surrounding CO2 emissions. (Reporting by Eileen O'Grady; Editing by Marguerita Choy)

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