

Mont. utility drops 250-megawatt coal plant

By MATTHEW BROWN
Associated Press reporter
Monday, February 2, 2009 7:03 PM MST

BILLINGS, Mont. -- A Montana utility is dropping plans for a 250-megawatt, coal-fired power plant near Great Falls and will instead build a smaller natural gas plant and some wind turbines, company officials said Monday.

The abandonment of Southern Montana Electric's Highwood Generating Station adds to a long list of coal plants canceled across the country over the past several years. Coal projects have been buffeted by skyrocketing construction costs, climate change pressures and a concerted legal campaign from environmental groups.

SME General Manager Tim Gregori said the utility now plans to pursue a 120-megawatt gas plant and erect at least six megawatts of wind turbines.

He cited a barrage of legal challenges and difficulties obtaining financing for Highwood, the cost of which had ballooned to nearly \$900 million.

"We had to make a pragmatic business decision to pursue something we knew we could build to meet our customers needs," he said.

Before Monday, SME had stuck doggedly with coal-fired power despite rising costs and lawsuits that repeatedly pushed back the project's construction schedule.

Environmental groups said the project would worsen climate change. It had been projected to emit 2.1 million tons annually of carbon dioxide, a leading contributor to global warming.

Coal produces about twice the carbon dioxide as natural gas.

Gov. Brian Schweitzer, an early supporter of the Highwood plant, said Monday that its demise was inevitable given a growing hesitation among banks to fund projects that do not capture carbon dioxide.

In the past two years, at least 78 coal projects have been canceled or put on hold, according to the environmental advocacy group Source Watch.

"I said I don't think you can finance a plant that doesn't have a provision for carbon dioxide, and that's what has come to fruition," Schweitzer said. "He (Gregori) has got all the state permits he needed. His problem is financing and carbon dioxide."

Cost projections for the Highwood plant had almost doubled since it was first proposed in 2005. Last year, SME suffered a major setback when the U.S. Department of Agriculture denied a loan requested from the utility, forcing it to seek private financing.

But Gregori said the "regulatory uncertainties" created by repeated legal challenges had made it harder to persuade financiers to put money toward the project.

Building a natural gas plant is expected to be simpler and faster. Gregori said the first phase, 80 megawatts, could be ready for service by late 2011 with another 40 megawatts coming on line a year later.

SME board member John Prinkki said the new plant would cost "in the \$200 million range."

By comparison, NorthWestern Energy is proposing to build a 200-megawatt gas-fired power plant near Anaconda for \$206 million. And Basin Electric has proposed a 90-megawatt gas plant near Culbertson for \$100 million.

But even with cheaper construction costs, SME customers could face higher monthly electricity bills because natural gas is more expensive than coal, Gregori and Prinkki said.

Gregori said an air permit application for the project would be submitted to the state Department of Environmental Quality in the next several weeks.

SME serves more than 50,000 customers through five smaller cooperatives: Fergus Electric, Tongue River Electric, Beartooth Electric, Yellowstone Valley Electric and Mid-Yellowstone Electric.

Those co-ops and the city of Great Falls -- longtime customers of the Bonneville Power Administration -- have been looking for ways to generate their own electricity after Bonneville announced it would not renew its power supply contracts beyond 2011.

More than \$40 million had been sunk into Highwood since its 2004 proposal. One of the five co-ops involved, Yellowstone Valley Electric, had sued SME in December to get out of the project, citing the plant's soaring costs.

Initial construction on the Highwood coal plant began last fall as efforts to get full financing for the project continued. SME was forced to build portions of the plant's foundation to meet a state-imposed deadline for retaining its air pollution permit.

Gregori said much of the work done to date could be used for the planned natural gas plant.

The Highwood plant had been embroiled in a pending lawsuit in state District Court over carbon dioxide emissions, two regulatory appeals dealing with hazardous pollutants before the Montana Board of Environmental Review and zoning challenges.

Attorney Abigail Dillen with Earthjustice, a Sierra Club-related law firm, had pursued multiple lawsuits and regulatory appeals against Highwood. She said the switch to a natural gas plant was "the reasonable course" for SME.

"You halve the (greenhouse gas) emissions," she said. "The worst possible thing they could have done was to build a new coal-fired plant that was going to supply much more power than anyone in that cooperative would ever need."

However, Gregori and Prinkki said they continued to believe in the cost advantages of coal -- a cheaper fuel than natural gas. Because a 120 megawatt natural gas plant would only partially satisfy SME's power needs, they said the utility still might revive its plans for a coal plant in the future.

"We're going to need more than that later on," Prinkki said. "We'll have to decide at that point whether we'll build more natural gas or go to coal."