

Energy Supply Technical Work Group

Summary List of Pending Priority Policy Options for Analysis

	Policy Option	GHG Reductions (MMtCO ₂ e)			Net Present Value 2008–2025 (Million \$)	Cost-Effectiveness (\$/tCO ₂ e)	Level of Support
		2015	2025	Total (2008–2025)			
ES-8	Advanced Fossil Fuel Technology Incentives, Support or Requirements						
	<i>New IGCC with carbon capture and storage</i>	0.00	3.66	21.96	\$3,506	159.7	Pending
	<i>New IGCC without carbon capture and storage</i>	0.0	0.5	3.2	\$1,953	\$606.5	Pending
	<i>Retrofitting existing coal stations with carbon capture and storage</i>	0.0	2.8	16.7	\$1,623	\$97.2	Pending
	<i>New IGCC with 1% biomass co-firing and carbon capture and storage</i>	0.00	3.71	22.25	\$3,515	\$158.0	Pending

Notes:

- ES TWG recommendations are in **bold** above.
- All option totals are relative to the underlying assumption that electric expansion in MN proceeds with the recently legislated Conservation Improvement Program, Renewable Energy Standard and all planned additions including the Mesaba and Big Stone 2 stations.

ES-8: Advanced Fossil Fuel Technology Incentives, Support, or Requirements

Policy Description and Design

Goals: For coal to play a significant role in Minnesota's future energy system, its overall environmental profile must improve, and come as close as possible to producing zero CO₂ emissions, while producing energy that is both affordable and reliable.

Timing: By 2020, the Upper Midwest region (Minnesota, Wisconsin, North and South Dakota) should strive to have at least two IGCC projects with CCS through design, construction and into full operation. Similar goals for demonstrations of amine scrubbing, oxy-fuel combustion, and next generation gasification technologies should be developed.

Parties Involved: Incumbent utilities, IPPs, state regulators.

Implementation Mechanisms

- Technology demonstrations—Critical to have commercial scale demonstrations using low-rank coals designed and under construction within the next 5 years, including demonstrations of IGCC with western sub-bituminous coal, IGCC with North Dakota lignite, and IGCC in conjunction with renewable energy such as wind power and/or hydrogen production. There are three demonstrations already in progress: Excelsior Energy's Mesaba IGCC project proposed for northeastern Minnesota, Xcel Energy's proposed IGCC demo in Colorado, and Great River Energy's coal-to-liquids IGCC project with CCS in North Dakota.
- Provide support for Front-End Engineering and Design (FEED) packages—state programs that offset some of the cost of FEED packages would allow utilities and developers to recoup their initial engineering costs through state tax credits or grants.
- Provide direct state financial incentives (tax credits, loan guarantees, etc.)
- Allow regulated utilities cost recovery for appropriate demonstration projects.
- Enhance IRP policies by using them to encourage low-CO₂ coal technologies—by incorporating proxy values for risk of future carbon regulations as Minnesota's 2007 legislation directs.
- Update workforce training and research and development programs and investments, with a focus on developing the gasification and carbon sequestration industries.
- Require development of the legal and regulatory frameworks needed for geologic storage of CO₂—new regulations should address issues of CO₂ ownership in storage and liability for same. State environmental agencies should develop permitting processes for underground storage, including guidance on pipelines, drilling, storage, measurement, monitoring and verification.
- Support comprehensive assessments of geologic reservoirs at state and federal levels to determine storage potential and feasibility.

- Evaluate the feasibility of CO₂ transport via pipeline and “advanced sequestration” (i.e., mineralization, carbon nanofibers) if Minnesota determines it has no in-state storage opportunities.
- Provide tax incentives for CCS, including when transported via pipeline for use in enhanced oil recovery operations.

Related Policies/Programs in Place

In 2003 the Minnesota Legislature enacted two statutes—Minnesota Stat. 216B.1693 (the “Clean Energy Technology Statute”) and Minnesota Stat. 216B. 1694 (the Innovative Energy Project Statute)—providing important regulatory incentives, including an exemption from the requirements of a certificate of need and eminent domain rights for approved sites and routes for project facilities, to encourage the rapid development of IGCC projects in Minnesota.

Type(s) of GHG Reductions

Reductions in emissions of carbon dioxide from coal combustion.

Estimated GHG Reductions and Net Costs or Cost Savings

- Energy Information Administration, “Assumptions to the Annual Energy Outlook 2007,” DOE/EIA-0554, April 2007, available at: <http://www.eia.doe.gov/oiaf/aeo/assumption/pdf/electricity.pdf>
- National Energy Technology Laboratory, “Cost and Performance Baseline for Fossil Energy Plants,” DOE/NETL-2007/1281, August 2007, available at: http://www.netl.doe.gov/energy-analyses/pubs/Bituminous%20Baseline_Final%20Report.pdf
- Plant-specific Minnesota capacity addition data is based on Form EIA-906, available at: http://www.eia.doe.gov/cneaf/electricity/epa/epa_sprdshts.html
- Intergovernmental Panel on Climate Change (IPCC), “Carbon Capture and Storage,” 2006.
- “The Future of Coal: Options for a Carbon-Constrained World, MIT, 2007, available at http://web.mit.edu/coal/The_Future_of_Coal.pdf

Quantification Methods:

This option considers the role that coal could play in Minnesota’s future energy system, providing its overall environmental profile improves and comes close to producing zero CO₂ emissions, while producing energy that is both affordable and reliable. It has been modeled thus far as a new IGCC unit with carbon and storage.

The TWG has considered a primary analysis and two sensitivity analyses as follows:

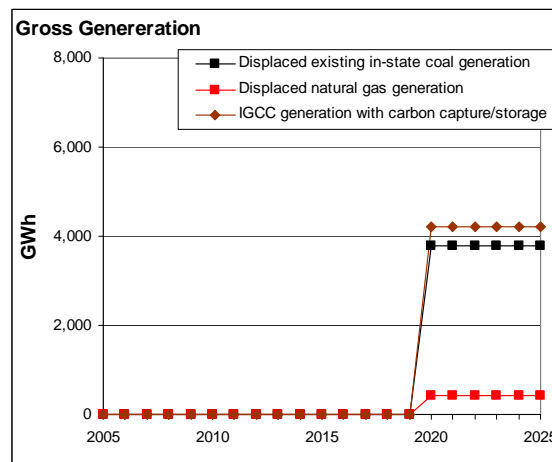
- *Primary analysis:* new IGCC with carbon capture and storage (CCS)
- *Sensitivity analysis #1:* new IGCC without CCS
- *Sensitivity analysis #2:* retrofit of existing coal stations with CCS
- *Sensitivity analysis #3:* new IGCC with 1% biomass co-firing and carbon capture and storage (CCS)

Primary analysis: new IGCC with carbon capture and storage

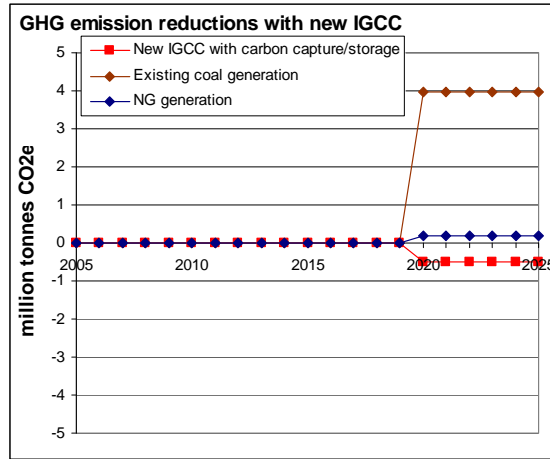
The TWG has made the following key assumptions for the analysis of this option, as follows:

- The start year for the option is 2020.
- One 600 MW IGCC station is installed.
- The resources displaced by the new IGCC plant are assumed to be 10% natural gas-fired generation from combustion turbines in- and out-of-state, with the balance from existing in-state coal-fired generation.
- The capital costs associated with displaced resources are not depreciated.
- A heat rate penalty of 1,530 btu/kWh above the assumed IGCC heat rate of 9,000 btu/kWh is assumed to be the effect of adding CCS technology.
- A carbon capture efficiency of 86% is assumed from adding CCS technology.
- Assumes a geologic storage site within 150 miles of the IGCC unit connected by a pipeline with a mass flow rate of 22.5 MtCO₂/yr.

Regarding generation, the impact of the option is summarized in the chart below for both new and displaced resources.



Regarding CO₂-equivalent (CO₂e) emission reductions, the impact of the option is summarized in the chart below. The upper curve represents the annual CO₂e reductions associated with backed down generation from existing coal-fired power stations in MN. The curve in the middle represents the annual CO₂e reductions associated with backed down generation from natural gas-fired power stations both in- and out-of-state. The lower curve represents the annual CO₂e emission increases associated with the generation from the new IGCC with CCS power station in MN. The net annual emission reductions in 2025 are 3.66 million tonnes CO₂e. The cumulative emission reductions over the 2020-2025 forecast period are 21.96 million tonnes CO₂e.



Regarding costs, there are cost savings associated with avoided capital, fuel and O&M at existing coal-fired stations in MN and natural gas-fired facilities (i.e., combustion turbines) located in MN and outside MN. There are incremental costs associated with new IGCC with CCS capital costs, transmission costs, variable O&M costs, fixed O&M costs and fuel (i.e., coal only) costs. The annual product of real levelized costs and displaced generation is an estimate of the annual cost savings. The net present value of these annual costs are \$3.506 billion over the 2020-2025 period (2005\$).

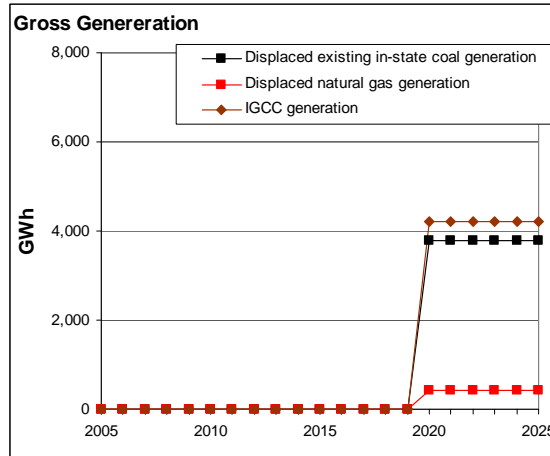
Regarding the cost effectiveness of the option, it was calculated as the quotient of the NPV and cumulative GHG emission reductions, \$159.7/tCO₂e (2005\$) (i.e., \$3.506 billion divided by 21.96 million tonnes and multiplied by a conversion factor of 1,000).

Sensitivity analysis #1: new IGCC without carbon capture and storage

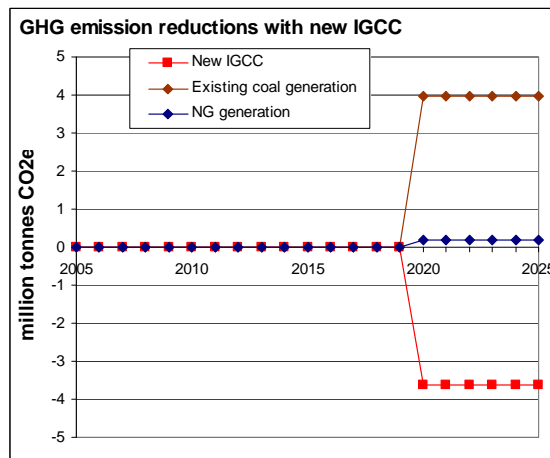
The TWG has made the following key assumptions for the analysis of this option, as follows:

- The start year for the option is 2020.
- One 600 MW IGCC station is installed.
- The resources displaced by the new IGCC plant are assumed to be 10% natural gas-fired generation from combustion turbines in- and out-of-state, with the balance from existing in-state coal-fired generation.
- The capital costs associated with displaced resources are not depreciated.

Regarding generation, the impact of the option is summarized in the chart below for the new and displaced resources.



Regarding CO₂-equivalent (CO₂e) emission reductions, the impact of the option is summarized in the chart below. The upper curve represents the annual CO₂e reductions associated with backed down generation from existing coal-fired power stations in MN. The curve in the middle represents the annual CO₂e reductions associated with backed down generation from natural gas-fired power stations both in- and out-of-state. The lower curve represents the annual CO₂e emission increases associated with the generation from the new IGCC power station in MN. The net annual emission reductions in 2015 and 2025 are 0.0 and 0.5 million tonnes CO₂e, respectively. The cumulative emission reductions over the 2020-2025 forecast period are 3.2 million tonnes CO₂e.



Regarding costs, there are cost savings associated with avoided capital, fuel and O&M at existing coal-fired stations in MN and natural gas-fired facilities (i.e., combustion turbines) located in MN and outside MN. There are incremental costs associated with new IGCC capital costs, transmission costs, variable O&M costs, fixed O&M costs and fuel costs. The annual product of real levelized costs and displaced generation is an estimate of the annual cost savings. The net present value of these annual costs are \$1.95 billion over the 2020-2025 period (2005\$).

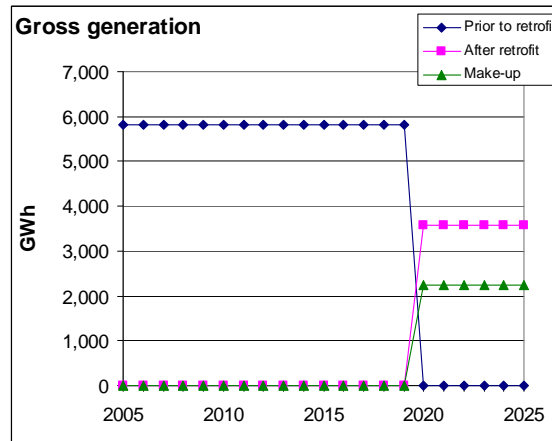
Regarding the cost effectiveness of the option, it was calculated as the quotient of the NPV and cumulative GHG emission reductions, \$606.5/tCO₂e (2005\$) (i.e., \$1.95 billion divided by 3.2 million tonnes and multiplied by a conversion factor of 1,000).

Sensitivity analysis #2: retrofitting existing pulverized coal stations with carbon capture and storage

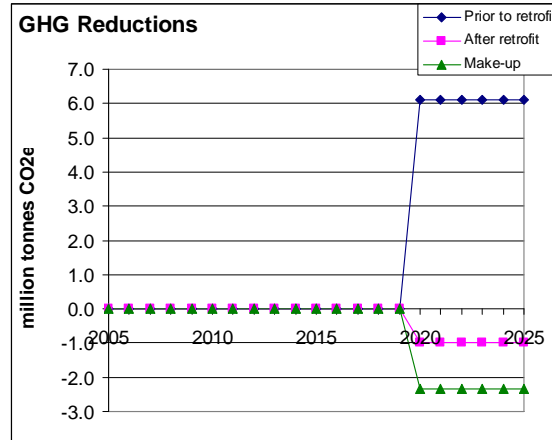
The TWG has made the following key assumptions for the analysis of this option, as follows:

- The start year for the option is 2020.
- One 500 MW IGCC station is installed using chemical absorption with monoethanolamine (MEA) for carbon capture
- One 500 MW IGCC station is installed using oxygen-firing for carbon capture
- A plant derating of 41% is assumed for MEA and 36% for oxygen-firing. Make-up power is assumed available from in-state pulverized coal stations.
- Carbon capture efficiencies are assumed to be 83% for MEA and 84% for oxygen-firing.
- Assumes a geologic storage site within 150 miles of the units connected by a pipeline with a mass flow rate of 22.5 MtCO₂/yr.

Regarding generation, the impact of the option is summarized in the chart.



Regarding CO₂-equivalent (CO₂e) emission reductions, the impact of the option is summarized in the chart below. The upper curve represents the annual CO₂e reductions associated with the existing coal-fired power stations in MN prior to retrofitting. The curve in the middle represents the annual CO₂e emissions associated with the retrofitted coal stations. The lower curve represents the annual CO₂e emissions associated with make-up power. The net annual emission reductions in 2015 and 2025 are 0.0 and 2.8 million tonnes CO₂e, respectively. The cumulative emission reductions over the 2020-2025 forecast period are 16.7 million tonnes CO₂e.



Regarding costs, there are incremental costs associated with retrofitting, namely incremental capital costs, variable O&M costs, fixed O&M costs and fuel costs. The annual product of real levelized costs and displaced generation is an estimate of the annual costs. The net present value of these annual costs are \$1.6 billion over the 2020-2025 period (2005\$).

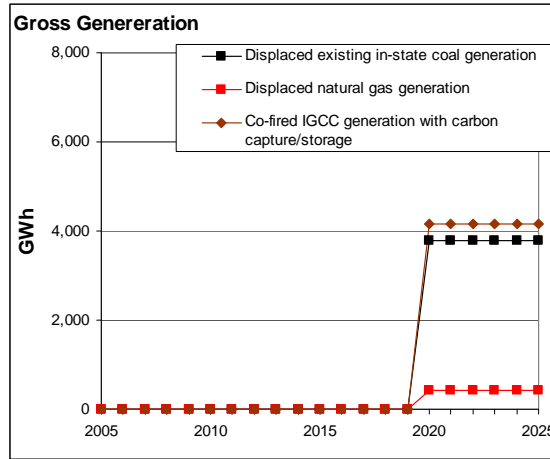
Regarding the cost effectiveness of the option, it was calculated as the quotient of the NPV and cumulative GHG emission reductions, \$97.2/tCO₂e (2005\$) (i.e., 1.6 billion divided by 16.7 million tonnes and multiplied by a conversion factor of 1,000).

Sensitivity analysis #3: new IGCC with 1% biomass co-firing and carbon capture and storage

The TWG has made the following key assumptions for the analysis of this option, as follows:

- The start year for the option is 2020.
- One 600 MW IGCC station is installed.
- The resources displaced by the new IGCC plant are assumed to be 10% natural gas-fired generation from combustion turbines in- and out-of-state, with the balance from existing in-state coal-fired generation.
- The capital costs associated with displaced resources are not depreciated.
- A heat rate penalty of 1,530 btu/kWh above the assumed IGCC heat rate of 9,000 btu/kWh is assumed to be the effect of adding CCS technology.
- A carbon capture efficiency of 86% is assumed from adding CCS technology.
- Assumes a geologic storage site within 150 miles of the IGCC unit connected by a pipeline with a mass flow rate of 22.5 MtCO₂/yr.
- Coal is co-fired with biomass at 1% on an energy basis

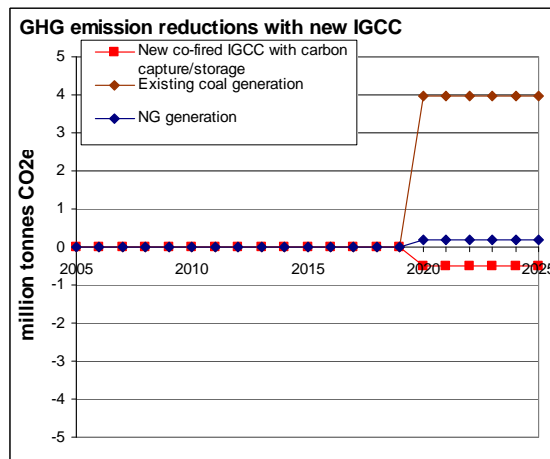
Regarding generation, the impact of the option is summarized in the chart below for both new and displaced resources. The total level of generation associated with the biomass portion of output from the IGCC unit is 42 GWh from 2020 through 2025.



Regarding CO₂-equivalent (CO₂e) emission reductions, the impact of the option is summarized in the chart below. The upper curve represents the annual CO₂e reductions associated with backed down generation from existing coal-fired power stations in MN. The curve in the middle represents the annual CO₂e reductions associated with backed down generation from natural gas-fired power stations both in- and out-of-state. The lower curve represents the annual CO₂e emission increases associated with the generation from the new IGCC with CCS power station in MN.

An annual total of 0.04 million tonnes of biogenic CO₂e emissions from biomass are captured and stored at the geologic storage site. This level represents an incremental sequestration amount that would otherwise not be accounted for as biomass is assumed to be used in a sustainable manner. Cumulatively, 0.26 million tonnes of biogenic CO₂e emissions are captured and stored at the geologic storage site.

The net annual emission reductions in 2025 are 3.71 million tonnes CO₂e. The cumulative emission reductions over the 2020-2025 forecast period are 22.25 million tonnes CO₂e.



Regarding costs, there are cost savings associated with avoided capital, fuel and O&M at existing coal-fired stations in MN and natural gas-fired facilities (i.e., combustion turbines) located in MN and outside MN. There are incremental costs associated with new IGCC with CCS capital costs, transmission costs, variable O&M costs, fixed O&M costs and fuel (i.e., coal and biomass) costs. The annual product of real levelized costs and displaced generation is an estimate of the

annual cost savings. The net present value of these annual costs are \$3.515 billion over the 2020-2025 period (2005\$).

Regarding the cost effectiveness of the option, it was calculated as the quotient of the NPV and cumulative GHG emission reductions, \$158.0/tCO₂e (2005\$) (i.e., \$3.515 billion divided by 22.25 million tonnes and multiplied by a conversion factor of 1,000).

Key Assumptions: See Annex 2.

Key Uncertainties

The mix of resources that is displaced by the new IGCC station

Additional Benefits and Costs

Installation of more efficient technology

Feasibility Issues

Technology currently in demonstration stage

Status of Group Approval

Pending—[until MCCAG moves to final agreement at meeting #8]

Level of Group Support

TBD—[blank until MCCAG meeting #8]

Barriers to Consensus

TBD—[blank until final vote by the MCCAG]

ES-8. Advanced Fossil Fuel Technology Incentives, Support or Requirements

Assumptions for Primary analysis: new IGCC with carbon capture and storage

Number of new IGCC/CCR units	1
Online year for new IGCC/CCR unit(s)	2020
Carbon capture & storage?	Yes
Coal CO2e emission factor (tCO2e/mmbtu)	0.0959

Sensitivities for CCR technology	1
	1 Central value (default)
	2 High value
	3 Low value

Cost & performance characteristics of new IGCC power stations

	Units	Value	Source
Size	MW	600	Assumption
Capacity factor	%	80%	Assumption
Heat rate	btu/kWh	9,000	Assumption
Annual gross generation	GWh/yr	4,205	Assumption

Cost & performance characteristics of new carbon capture & storage technology

		Range		
		Low	High	Central
Capture from IGCC	2005\$/tCO2 captured	15.0	75.0	45.0
Transportation	2005\$/tCO2 transported	1.0	8.0	4.5
Geologic storage	2005\$/tCO2 injected	0.5	8.0	4.3
Monitoring/verification	2005\$/tCO2 injected	0.1	0.3	0.2
<i>subtotal</i>	2005\$/tCO2	16.6	91.3	54.0
Heat rate penalty	btu/kWh	11,880	9,270	10,530
CO2 emission reduction	%	81%	91%	86%

Resource displaced

2	1 existing coal represents	100%	of the resource displaced by the new IGCC plant
	2 existing NG on the MISO system represents	10%	of the resource displaced by the new IGCC plant
	with the balance of	90%	being existing in-state coal displaced by the new IGCC plant

Financial status of displaced resource

1	1 not depreciated
	2 fully depreciated (default)

Levelized cost assumptions (2005\$/MWh)

	Capacity	Transmission	Fixed O&M	Variable O&M	Fuel	Total
Pulverized coal	68.8	2.3	5.9	8.5	23.1	108.7
IGCC	122.3	2.5	8.8	11.4	22.6	167.6
IGCC/CCS (low)	142.3	2.7	9.4	11.4	17.8	183.5
IGCC/CCS (mid)	154.6	2.7	9.4	11.4	15.8	193.8
IGCC/CCS (high)	164.5	2.7	9.4	11.4	13.9	201.8
Natural gas CT	32.0	4.0	1.4	20.5	158.8	216.6

Assumptions for Sensitivity analysis #1: new IGCC without carbon capture and storage

Number of new IGCC units 1
Online year for new IGCC unit(s) 2020
Carbon capture & storage? No

Characteristics of new IGCC power stations

	Units	Value
Size	MW	600
Capacity factor	%	80%
Heat rate	btu/kWh	9,000
Annual gross generation	GWh/yr	4,205
coal CO2e emission factor	tCO2e/mmbtu	0.0959
new IGCC CO2e e-factor	E6	0.0009

Resource displaced

	2	
1 existing coal represents	100%	of the resource displaced by the new IGCC plant
2 existing NG on the MISO system represents with the balance of	10%	of the resource displaced by the new IGCC plant
	90%	being existing in-state coal displaced by the new IGCC plant

Financial status of displaced resource

	1
1 not depreciated (default)	
2 fully depreciated	

Levelized cost assumptions (2005\$/MWh)

	Capacity	Transmission	Fixed O&M	Variable O&M	Fuel	Total
Pulverized coal	68.8	2.3	5.9	8.5	23.1	108.7
IGCC	122.3	2.5	8.8	11.4	22.6	167.6
Natural gas CT	32.0	4.0	1.4	20.5	158.8	216.6

Assumptions for Sensitivity analysis #3: new IGCC co-fired with 1% biomass, with carbon capture and storage

Number of new IGCC/CCR units 1
Online year for new IGCC/CCR unit(s) 2020
Carbon capture & storage? Yes
Coal CO2e emission factor (tCO2e/mmbt) 0.0959

Sensitivities for CCR technology **1**
 1 Central value (default)
 2 High value
 3 Low value

Cost & performance characteristics of new IGCC power stations

	Units	Value	Source
Size	MW	600	Assumption
Capacity factor	%	80%	Assumption
Heat rate	btu/kWh	9,000	Assumption
Annual gross generation	GWh/yr	4,205	Assumption

Cost & performance characteristics of new carbon capture & storage technology

		Range		
		Low	High	Central
Capture from IGCC	2005\$/tCO2 capture	15.0	75.0	45.0
Transportation	2005\$/tCO2 transport	1.0	8.0	4.5
Geologic storage	2005\$/tCO2 injected	0.5	8.0	4.3
Monitoring/verification	2005\$/tCO2 injected	0.1	0.3	0.2
	<i>subtotal</i> 2005\$/tCO2	16.6	91.3	54.0
Heat rate (including penalty)	btu/kWh	11,880	9,270	10,530
CO2 emission reduction	%	81%	91%	86%

Resource displaced

2
 1 existing coal represents 100% of the resource displaced by the new IGCC plant
 2 existing NG on the MISO system with the balance of 10% of the resource displaced by the new IGCC plant being existing in-state coal displaced by the new IGCC plant
 90%

Financial status of displaced resource

1
 1 not depreciated
 2 fully depreciated (default)

Levelized cost assumptions (2005\$/MWh)

	Capacity	transmission	fixed O&M	variable O&M	Fuel	Total
Pulverized coal	22.9	2.3	5.9	8.5	23.1	62.8
IGCC	122.3	2.5	8.8	11.4	22.6	167.6
IGCC/CCS (low)	142.3	2.7	9.4	11.4	17.8	183.5
IGCC/CCS (mid)	154.6	2.7	9.4	11.4	15.8	193.8
IGCC/CCS (high)	164.5	2.7	9.4	11.4	13.9	201.8
Natural gas CT	10.7	4.0	1.4	20.5	158.8	195.3

MN ES TWG Pending Policy Option Descriptions, 01/24/08

Biomass co-firing assumption

- 1 Biomass represents of fuel combusted annually at pulverized coal power stations (default)
- 2 User-defined (Biomass represents of fuel combusted at pulverized coal power stations)
- 2 User-defined (Biomass represents of fuel combusted at pulverized coal power stations)

Ramp-up period for full utilization of biomass (years)

- 1 Policy ramps up linearly over a year period (default)
- 2 User-defined (Policy ramps up linearly over a year period)

Phase-in for co-firing portion

Start year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
2008				0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2009				0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2010					0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2011						0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2012							0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2013								0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2014									0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2015										0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2016											0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2017												0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2018													0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2019														0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2020															1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
2021																0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2022																	0.00%	0.00%	0.00%	0.00%	0.00%
2023																		0.00%	0.00%	0.00%	0.00%
2024																			0.00%	0.00%	0.00%
2025																				0.00%	0.00%
	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

Biogenic biomass emission factor

- tC per TJ
- tCO2/mmbtu

Levelized biomass fuel price (2005\$/MWh)