



STATE OF MICHIGAN  
DEPARTMENT OF NATURAL RESOURCES & ENVIRONMENT  
LANSING

JENNIFER M. GRANHOLM  
GOVERNOR

REBECCA A. HUMPHRIES  
DIRECTOR

May 21, 2010

Mr. Brian L. Warner, CHMM  
Wolverine Power Supply Cooperative, Inc.  
10125 West Watergate Road  
Cadillac, Michigan 49601

Dear Mr. Warner:

This letter is in reference to Permit to Install application, identified as No. 317-07, State Registration Number N7867, submitted by Wolverine Power Supply Cooperative, Inc. (Wolverine). The application was received on September 26, 2007, for a 600 megawatt (MW) coal-fired steam electric power plant proposed to be located in Rogers City, Michigan.

The public comment period ended on January 6, 2009, with public hearings held on October 20, 2008, October 30, 2008, and January 6, 2009. Comments were received during the comment period and at the public hearings. After careful consideration of the issues and pursuant to the delegation of authority from the Director of the Michigan Department of Natural Resources and Environment (DNRE), I have denied Permit to Install No. 317-07.

The application was submitted under Michigan's state implementation plan and the federal Clean Air Act (CAA). The proposal was subject to the permitting requirements of the state and federal Prevention of Significant Deterioration (PSD) provisions. Public comment is a requirement of PSD.

As a result of comments received during the public comment period and consistent with state and federal law, specifically Rule 1817(2) of the Michigan Air Pollution Control Rules and Section 165(a)(2) of the CAA, the DNRE requested that Wolverine submit an analysis of alternatives for the proposed facility. The analysis was to evaluate, among other things, future load requirements and the adequacy of existing supplies, including whether a reduced number of boilers or no new boilers are viable options in light of the other alternatives to be addressed. The DNRE's analysis of alternatives under Section 165(a)(2) of the CAA and Rule 1817(2) includes consideration of need for the proposed facility. See *In re Prairie State Generating Co.*, slip op. at 37-44 (August 24, 2006).

In order to assure appropriate review of Wolverine's submittal, the DNRE entered into a Memorandum of Understanding with the Michigan Public Service Commission (MPSC). Each agency was given the task of reviewing the portion of the analysis that fell within their area of expertise. The public was provided an opportunity to comment on Wolverine's submittal.

In September 2009, the MPSC issued its final report stating "Wolverine failed to demonstrate the need for the proposed facility as the sole source to meet their projected capacity. In particular, long-term purchase power options were not fully explored as part of their analysis. It should be noted that the majority of Wolverine's long-term projected capacity need is based upon the expiration of power purchases (540 MW) on or before December 31, 2011. Wolverine has presented no evidence that the capacity currently supporting this existing contract will be unavailable in the future." The MPSC also noted that the coal-fired boiler plant is one alternative out of a range of alternatives that could be explored to fill the projected capacity need and describes these alternatives as energy efficiency and load management, renewable resources, or a combination of a number of other alternatives to offset the amount of purchased power needed. Lastly, the MPSC questioned Wolverine's forecasted demand growth, calling it questionable and optimistic.

The MPSC report concludes, "Staff acknowledges that a generation asset, such as has been proposed by Wolverine, represents a significant financial investment with a variety of associated risks. Significant changes have taken place on many fronts, including a slowing national and state economy, new state policy initiatives on energy efficiency and renewable energy, and pending federal legislation on the regulation of carbon emission. With these issues in mind, staff contends that a full spectrum of risks should have been considered within the framework of Wolverine's Electric Generating Alternatives Analysis (EGAA) as it relates to long-term investment decisions of this nature."

In an October 2, 2009 response to the MPSC report, Wolverine submitted a letter that included an affidavit from Mr. Eric Baker, Wolverine's President and CEO, regarding its efforts to explore long-term purchase power options. The affidavit states: "Wolverine continues to participate in numerous confidential power supply discussions with major utilities located throughout the Midwest, expressing Wolverine's desire to procure competitively-priced long-term power supply for its member-systems." According to the affidavit, Wolverine "has not received a single meaningful, credible, competitively-priced long-term offer for power supply" due in part to a reduction in available transacting counterparties and shortened contract terms.

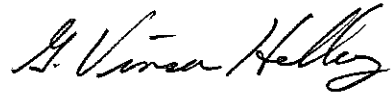
In assessing Wolverine's submittal, the findings of the MPSC, and the response provided by Wolverine, the DNRE is persuaded by the MPSC report. Wolverine has not adequately demonstrated its inability to secure long-term power supply purchase arrangements to meet its member needs. Wolverine has not demonstrated a need for the proposed facility.

Based on the above findings, the permit application has been denied pursuant to Section 165(a)(2) of the CAA and Rule 1817(2) of Michigan's Air Pollution Control Rules for failure to demonstrate a need for the proposed facility.

In addition, the MPSC estimated that building Wolverine's proposed coal plant would increase the rates of its customers by approximately 60 percent to over 20 cents per kilowatt hour. This would make the electric rate the highest in the nation after Hawaii. While this is not a factor in the consideration of the permit decision, it is a factor that should be considered in good public policy.

Please contact me if you have any questions regarding this permit.

Sincerely,



G. Vinson Hellwig, Chief  
Air Quality Division  
517-373-7069

Enclosures

cc/enc: Mayor Beach Hall, City of Rogers City  
Ms. Susan Rhode, Presque Isle County Clerk  
Honorable Laurel Broten, Ontario Ministry of the Environment  
Mr. Mike Moroney, Ontario Ministry of the Environment  
Ms. Pamela Blakley, U.S. Environmental Protection Agency, Region 5  
Ms. Laura Cossa, U.S. Environmental Protection Agency, Region 5  
Mr. James Warner, Minnesota Pollution Control Agency  
Mr. Keith Pierce, Wisconsin Bureau of Air Management  
Ms. Laurel Kroack, Illinois EPA  
Mr. Robert Hodanbosi, Ohio EPA  
Ms. Joyce E. Epps, Pennsylvania Bureau of Air Quality Control  
Mr. Eric Wade, New York State Department of Environmental Conservation  
Indiana Department of Environmental Management, Office of Air Quality  
Ms. Phyllis Green, Isle Royale National Park Superintendent  
Mr. Mark Vaniman, Seney National Wildlife Refuge Manager  
Ms. Janis Denman, DNRE  
Ms. Melissa Byrnes, DNRE