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GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF NATURAL RESOURCES & ENVIRONMENT
LANSING



REBECCA A. HUMPHRIES
DIRECTOR

August 20, 2010

Mr. David G. Koster, Power Resources Director
Holland Board of Public Works – James DeYoung Plant
64 Pine Avenue
Holland, Michigan 49423

Dear Mr. Koster:

This letter is in reference to your Permit to Install application, identified as No. 25-07, State Registration Number B2357. The application, received on January 17, 2007, is for the proposed installation of a 78-megawatt (MW) (gross) circulating fluidized bed (CFB) solid fuel-fired boiler and associated cooling tower and material handling operations, and to cease operation/remove an 11.5 MW pulverized coal fired boiler from the existing Holland Board of Public Works – James DeYoung Plant (HBPW). The facility is located at 64 Pine Avenue, Holland, Michigan.

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.

The public comment period ended on January 30, 2009, with public hearings held on January 12 and 13, 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 DNRE, I have denied Permit to Install No. 25-07.

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 HBPW submit an analysis of alternatives for the proposed facility. The analysis was to evaluate, among other things, reduced generating capacity, future load requirements, and the adequacy of existing supplies, including whether a smaller boiler or no new boiler would be a viable option in light of the other alternatives to be addressed. The DNRE analysis of alternatives under Section 165(a)(2) of the CAA and Rule 1817(2) includes consideration of need for the new boiler. See *In re Prairie State Generating Co.*, slip op. at 37-44 (August 24, 2006).

In order to assure appropriate review of the HBPW 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 the HBPW submittal.

In July 2010, the MPSC issued its final report stating:

HBPW failed to adequately demonstrate the need for the proposed facility as the sole source to meet its projected capacity requirements. Given Michigan's recent economic recession and uncertainty concerning the time frame for economic recovery, HBPW's forecasted annual demand growth rate of approximately 2.1%

appears overly optimistic. Load growth in the early years is dependent upon some key industrial load additions, which have a significant impact on the overall load forecast. Furthermore, the amount of peak demand reduction potential through energy efficiency and other demand-side strategies assumed within HBPW's supply plan appears unduly conservative. Under-estimating the potential impact of energy efficiency in future years, coupled with an overly optimistic load forecast results in a projected capacity need which may not fully materialize.

The MPSC also noted that the proposed CFB plant is one alternative out of a range of alternatives that may be used to fill the projected capacity need and described these alternatives as a combined cycle natural gas plant, purchase power options or a combination of alternatives that could lead to lesser amounts of purchased power, energy efficiency and load management, and renewable generation resources.

The MPSC report concludes:

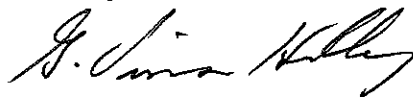
Staff acknowledges that a generation asset, such as has been proposed by HBPW, represents a significant financial investment with a variety of associated risks. Significant changes have taken place on many fronts, including a slowing national and state economy, new state policy initiatives on energy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

In assessing the HBPW submittal, and the findings of the MPSC, the DNRE is persuaded by the MPSC report. HBPW has not adequately demonstrated that the proposed new boiler is necessary to meet its projected capacity requirements.

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

Please contact me if you have any further questions regarding this decision.

Sincerely,



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

cc: Mayor Albert McGeehan, City of Holland
Ms. Joyce A. Watts, Allegan 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
Mr. Matthew Stuckey, Indiana Department of Environmental Management
Ms. Phyllis Green, Isle Royale National Park Superintendent
Mr. Mark Vaniman, Seney National Wildlife Refuge Manager
Ms. Heidi Hollenbach, DNRE
Mr. Vrajesh Patel, DNRE