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March 1, 1996

VIA FACSIMILE
ORIGINAL VIA FIRST-CLASS MAIL

Mr. Christopher Knopes
Regulatory Inspection Analyst
U.S. Environmental Protection Agency
Mail Stop 2126
401 M Street, S.W.
Washington, D.C. 20460

Re: New York State Electric & Gas Corporation, Pennsylvania Electric Company, and GPU Generation Corporation Homer City Station XL Demonstration Project Proposal Supplements

Dear Mr. Knopes:

This will confirm our February 28, 1996 telephone conversation about the above-referenced XL Demonstration Project Proposal Supplements. Specifically, we discussed the similarities and differences between the Homer City Station Owners' September 18, 1995 and February 2, 1996 Supplements.

Although the basic objectives of the Supplements are similar, there are several important substantive and environmentally beneficial changes in the February 2 Supplement, as outlined below. As a result, and as I had indicated during our conversation, it is important that EPA's review team focus on the February 2, 1996 Supplement.

Similarities

The Owners' February 2, 1996 Supplement reflects many of the basic elements of the September 18, 1995 Supplement. For example:

- The Owners would utilize an innovative regulatory approach for demonstrating compliance with new source performance standards more flexibly and cost effectively by implementing sulfur dioxide (SO_2) emissions trading between the "existing" (Units 1 and 2) and the "new" unit (Unit 3) at the station. The project is designed to explore and verify the range of achievable operational flexibility improvements, fuels management efficiencies, and economic and environmental benefits that can result from implementing this approach.

- In return, the Owners would agree to forego the opportunity to increase the station's average annual SO_2 emission rate from the 1995 level to a level consistent with the Chestnut/Laurel Ridge Attainment Plan. This would be equivalent to an annual increase of 26,472 tons of SO_2 at an 89 percent capacity factor.

- Unit-specific 3-hour average SO_2 emission rate limitations will be established at levels to maintain and protect SO_2 ambient air quality standards for the region. The limits proposed in the February 2nd Supplement differ slightly from those in the September 18th Supplement. The Owners now propose 3-hour average limits of 2.77, 2.77, and 1.58 lbs. of SO_2/mmBtu for Units 1, 2, and 3, respectively (2.00 lbs. of SO_2/mmBtu Station annual average), rather than 2.40 lbs. of SO_2/mmBtu for each unit (2.37 lbs. of SO_2/mmBtu Station annual average).

- The project will be used to explore and verify the economic opportunities that could result from the increased use of local coal made possible by trading SO_2 emissions among the units. These include saving up to $ 6.5 million annually (the prior Supplement projected $18 million annually) through lower fuel costs and increased efficiency, maintaining the viability of the local coal market, and also maintaining and possibly increasing the number of local coal mining jobs. In addition, the continued use of local coals will enable the Owners to optimize the use of the station's existing coal cleaning facility.

- As a result of the proposed project, the likelihood of installing an SO_2 scrubber at the station would be reduced, resulting in the preservation of natural resources and the avoidance of significant environmental effects associated with scrubber operation. The February 2nd Supplement (pages 9-10) describes the impacts avoided in detail.

- The proposed project would reduce and/or eliminate small and dispersed off-site facilities currently used to blend compliance coal for Unit 3, and the permits and reports necessary for those facilities.

- The legal mechanisms that could be used to implement the project remain the same. Possible

options are to: (1) develop a consent decree among the Owners, EPA, and Pennsylvania Department of Environmental Protection; (2) establish a different methodology for determining Unit 3's compliance with the NSPS (i.e. a "compliance bubble") as part of the final project agreement; or (3) establish as part of the final project agreement an alternative NSPS for the station pursuant to 40 C.F.R. Part 60.

Differences

The February 2nd Supplement differs from the September 18th Supplement in three important respects.

- Limited Duration/Certainty of Benefits. The Owners now propose an initial XL project of limited duration (up to 2 years). This "Phase I" project will be used to document and report on the environmental and economic benefits. In addition, Phase I will be used to explore the feasibility of instituting a Phase II proposal containing further operational and fuels management measures to achieve additional verifiable environmental benefits in the future. Measures to be evaluated, which include achieving a station average annual SO_2 emission rate below 1995 actual levels and eliminating other air pollutant sources at the station, are described in detail in the February 2nd Supplement (see pages 10-11).

- Absolute Verification. The Owners will verify whether the environmental benefits described in their February 2nd Supplement have been achieved. For example, the ability of the project to maintain the station's SO_2 emissions at 1995 actual levels will be determined by establishing a 2.00 lbs. of SO_2/mmBtu average annual emission rate for the station. Achievement of this standard will be measured through continuous monitoring of boiler emissions in accordance with 40 C.F.R. Part 75 (Acid Rain Continuous Emission Monitoring Requirements).

  The Owners also have eliminated from their proposal environmental benefits which cannot be quantified and verified. For example, the Owners previously proposed to demonstrate a reduction in vehicular emissions associated with delivering coal to the station from the elimination of five million truck miles traveled per year. The Owners have concluded that this environmental benefit could not be demonstrated because the baseline for measuring whether such reductions would be achieved could not be definitively established.

- Environmental Safeguards. Finally, the February 2nd Supplement establishes discrete safeguards to ensure that environmental benefits are achieved. Specifically, if the station's

2.00 lbs. of SO_2/mmBtu average annual emission rate is not met, the Owners will acquire and permanently retire three (3) Clean Air Act Title IV allowances for every ton of SO_2 emitted above the standard. As an additional environmental benefit, if the station's average annual emission rate is below the standard, the Owners will limit the emission reductions generated to 0.9 tons for every ton of actual reduction. In other words, the environment would benefit by receiving 10 percent of any reduction achieved below 1995 levels.

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In short, the Owners have refined their Homer City Station XL Project proposal with the objective of demonstrating environmental and economic benefits that are absolutely achievable, quantifiable and that will withstand the most careful scrutiny.

Please call me if you have any additional questions.

Very truly yours,

John P. Proctor

cc: Vincent J. Brisini
Ronald P. Lantzy
Phil Murphy