



United States Department of Agriculture
Rural Development | Rural Utilities Service

Notice of Adoption
USDA Rural Utilities Service
For the Proposed Financing of South Mississippi Electric Power Association's
Joint Ownership in the Kemper County IGCC Project

The South Mississippi Electric Power Association (SMEPA), a rural electric generation and transmission cooperative, has approached the USDA Rural Utilities Service (RUS, the Agency) for financial assistance through which SMEPA would acquire a 17.5% undivided ownership interest in Plant Ratcliff, an Integrated Gasification Combined-Cycle (IGCC) Project currently under construction in Kemper County, Mississippi (hereinafter “the Project”) and owned by Mississippi Power Company (MPCo). In accordance with RUS Environmental Policies and Procedures, 7 CFR 1794, RUS has discretion in determining whether a proposal is subject to the National Environmental Policy Act of 1969 (NEPA), 42 U.S.C. §4321, when potential borrowers will have only partial ownership of a project for which they are requesting financing (7 CFR §1794.20, Control). Though acknowledging that RUS financing will provide SMEPA with significantly limited control of the Project, RUS considers the Project subject to NEPA and to the National Historic Preservation Act (NHPA) and its implementing regulations at 36 CFR Part 800. This notice documents the efforts undertaken by RUS to ensure compliance with NEPA, NHPA, and all other applicable environmental laws and regulations through the adoption of the Final Environmental Impact Statement (FEIS) prepared for the Project by the United States Department of Energy (DOE) in cooperation with the U.S. Army Corps of Engineers (USACE).

Project Description

The Project will produce 582 megawatts (MW) of power through the use of clean coal IGCC technology. Lignite mined locally by North American Coal Corporation (NACC) will be converted into a synthesis gas (syngas) that will drive two gas combustion turbines. Heat recovery steam generators will convert excess heat from primary combustion to drive a steam turbine that will produce additional electrical power. The Project will demonstrate greater efficiencies and reduced carbon dioxide (CO₂), sulfur dioxide (SO₂), nitrogen oxide (NO_x), mercury, and particulate emissions as compared to conventional lignite-fired electrical power plants. In addition to the IGCC facility and the mining operation, the Project requires the construction and/or upgrading of a natural gas supply pipeline, a reclaimed water supply pipeline, a CO₂ pipeline, and electrical transmission infrastructure including power lines and substations.

Southern Company, in cooperation with two of its subsidiaries, Southern Company Services and Mississippi Power Company (MPCo), has received cost-shared financing for the Project from the Department of Energy (DOE) under the Clean Coal Power Initiative. DOE conducted its NEPA review by preparing an Environmental Impact Statement (EIS) in

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cooperation with the U.S. Army Corps of Engineers (USACE), which resulted in the issuance of a Record of Decision (ROD) announcing the agency's decision to finance the Project in March 2010. MPCo received Air and Water Pollution Control permits from the state of Mississippi in March of 2010, and the Mississippi Public Service Commission issued a Certificate of Public Convenience and Necessity in May 2010.¹ DOE's Mitigation Action Plan (MAP) was issued in September 2010 and construction began in December of that year.

SMEPA Involvement and Request for Financing

SMEPA is a consumer-owned, not-for-profit rural electric generation and transmission cooperative that provides wholesale electric service to its eleven (11) member distribution cooperatives in 56 counties of Mississippi. SMEPA's mission is to provide affordable and reliable power to its members. MPCo, a private utility that sells power to SMEPA to serve approximately a third of SMEPA members' power demands, approached SMEPA in 2009 with the opportunity to participate in the Project. Based on its need to diversify generation resources in the region, SMEPA elected to support the Project and executed a Letter of Intent to evaluate potential joint ownership.

SMEPA has evaluated their participation in the Project based on forecasted power demand, an evaluation of alternatives, and consideration of the Project's overall economic feasibility. In 2010, SMEPA prepared a Generation Construction Work Plan (GCWP), which evaluated SMEPA's construction needs to meet their projected power demand based on feasibility, environmental acceptability, and affordability. The GCWP reviewed previous Power Requirements Studies (PRS) and a long-range Power Supply Option Study (PSOS), which evaluated SMEPA's existing generation resources and the projected demand growth, and established that SMEPA would be capacity deficient by 2015. SMEPA subsequently released a Request for Power Supply Proposal to identify potential resources to meet this demand. Taking into account demand growth, carbon emissions, construction costs, and gas price forecasts, the submissions were analyzed in comparison to self-build options (SMEPA-constructed generation facilities) and participation in the Project. SMEPA also accounted for potential financial implications of their participation in the Project for their members. Given that the Project will proceed regardless of SMEPA's participation, SMEPA's membership will be affected by Project-associated rate increases associated with the construction and operation of the Project due to preexisting and immutable contractual agreements with MPCo. SMEPA determined that partial ownership in the Project would help minimize the unavoidable rate increase.

Based on these evaluations, SMEPA determined that a 17.5% undivided ownership interest in the Project would be the best overall option and has formally requested financial assistance from RUS to finance this action. SMEPA's partial ownership would include the IGCC facility, the CO₂ pipeline, the reclaimed water supply line, the surface lignite mine, and electrical transmission facilities.

¹ The Certificate of Public Convenience and Necessity has since been appealed, reversed by the Mississippi Supreme Court and remanded to the Mississippi PSC for further proceedings in March of 2012. The Certificate was reissued by the Mississippi PSC on April 24, 2012.

RUS Action

RUS conducts the rural electrification loan program, which provides financing through direct loans and loan guarantees for the construction and operation of generation facilities and electric transmission and distribution lines and systems to improve electric service for rural Americans. RUS bases its decisions on financial, engineering, and environmental considerations. RUS assessed whether SMEPA would have sufficient control and responsibility to alter the development of the Project in order to determine if the project is subject to NEPA, in accordance with 7 CFR §1794.20. Through discussions with SMEPA, and review of loan and contractual documentation, RUS established that the project will be completed regardless of RUS-funded SMEPA participation. RUS further established that the Joint Ownership and Operating Agreement (JOOA), to be executed with MPCo, will provide SMEPA with only a limited ability to influence the Project.² However, due to the Project's significant public interest and potential federal expenditure, RUS decided to consider the Project a federal action subject to NEPA and an undertaking as defined by Section 106 of the NHPA.

RUS reviewed transmission system impact studies and additional engineering studies provided by SMEPA, and the Final EIS (FEIS) and the associated MAP prepared by the DOE in cooperation with the USACE. RUS determined that SMEPA's participation would not require any additional infrastructure, and therefore would not cause any environmental impacts beyond what was identified and discussed in the FEIS. RUS reviewed and determined that the FEIS and MAP adequately assessed the potential impacts of the Project, and intends to adopt the EIS in accordance with 40 CFR §1506.3 and 7 CFR §1794.72. RUS/SMEPA participation will not cause any additional impacts on historic properties. RUS has therefore determined that the Project qualifies as an undertaking with no potential to effect historic properties in accordance with 36 CFR §800.3(a)(1).

This notice documents the Agency's intent to adopt the DOE/USACE FEIS, and fulfills the agency's responsibilities for public involvement, in accordance with 36 CFR 800.2(d)(2). RUS has posted this notice and a link to the FEIS on the Agency's website (<http://www.rurdev.usda.gov/UWP-eis4.htm>). There will be a 30-day comment period on the Agency's action after the USEPA publishes its receipt of the adoption notice in the Federal Register. Upon completion of the 30-day review period, RUS will publish its ROD.

To obtain additional information or provide comments, please contact Emily Orler, Environmental Protection Specialist. Ms. Orler may be reached at 202-720-1414; email: emily.orler@wdc.usda.gov; or Rural Utilities Service, 1400 Independence Ave., SW, Mail Stop 1571, Washington, DC 20250.

² Through the JOOA, SMEPA would only be granted audit rights and authority for on-site representation during Project construction and operation. Should a Project Management Committee (PMC) be formed, SMEPA's representation would be proportional to their percentage of ownership, and therefore limited to 17.5% influence over construction and management decisions.