

Coal Rush Reverses, Power Firms Follow

Plans for New Plants Stalled by Growing Opposition

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The mayor of Missoula, Mont., is the latest person to discover just how unpopular coal plants have become.

In early August, Mayor John Engen (D) won city council support to buy electricity from a new coal-fired plant scheduled to begin operation in 2011. He said the city government would save money on its electric bills.

But three weeks later, Engen pulled out of the deal after receiving hundreds of e-mails and phone calls from constituents upset that Missoula would contribute to the creation of a coal plant and concerned about what the town would do if the plant never got built.

"Coal is a double-edged sword," Engen said. "I sort of felt both edges."

A year after the nation appeared to be in the middle of a coal rush, widening alarm about greenhouse gas emissions has slowed the efforts of electric companies to build coal-fired power plants from hills of eastern Montana to southern Florida.

Recently, proponents of coal-fired power plants acquired a new foe: Senate Majority Leader Harry M. Reid. In late July, Reid (D-Nev.) sent a letter to the chief executives of four power companies in which he vowed to "use every means at my disposal" to stop their plans to build three coal-fired plants in Nevada. Last month, after a speech in Reno, Reid said he was opposed to new coal-fired plants anywhere.

"There's not a coal-fired plant in America that's clean. They're all dirty," Reid told reporters after speaking at a conference on renewable energy. He said that the United States should turn to wind, solar and geothermal power in an effort to slow climate change. "Unless we do something quickly about global warming, we're in trouble," he said.

Reid's opposition to coal plants is the latest in a series of new obstacles for power companies seeking to use the fuel to generate electricity. A combination of rising construction costs, state mandates for the use of renewable energy and lawsuits by environmental organizations have forced many utilities to drop or postpone coal projects this summer.

In June, all four members of Florida's Public Service Commission -- including two appointed by the new Republican governor -- rejected an FPL Group proposal for coal plant near Lake Okeechobee. The following month, another of the state's utilities withdrew its application for a new coal-fired plant.

Gov. Charlie Crist said approvingly that the Public Service Commission "sent a very powerful message" and that the state "should look to solar and wind and nuclear as alternatives to the way we've generated power in the Sunshine State."

In July, Citigroup coal analysts downgraded the stocks of coal companies across the board. "Prophesies of a new wave of coal-fired generation have vaporized, while clean coal technologies . . . remain a decade away, or more," their report said.

The Citigroup analysts said that by 2008 "election politics are likely to turn progressively more bestial for coal. Candidates are already stepping up to 'ban coal.'" The Citigroup report said that coal producers' earnings would probably be hurt by "new regulatory mandates applied to a group perceived as landscape-disfiguring global warming bad guys."

Later in July, environmental groups in Montana filed a lawsuit to stop the U.S. Agriculture Department's Rural

Utilities Service from providing hundreds of millions of dollars in low-cost federal loans to a group of rural electric cooperatives seeking to build a coal-fired plant -- the one that could have supplied power to Missoula. The city of Great Falls, Mont., is also a partner in the project.

Abigail Dillen, a lawyer with public-interest law firm EarthJustice, said that the proposed plant is six times bigger than needed for the cooperatives, which plan to sell the extra power on the wholesale market. She added that the Rural Utilities Service had failed to meet requirements to consider alternatives such as wind power, which would not emit any greenhouse gases.

The cooperatives said they needed a new coal plant to replace a soon-to-expire agreement to buy cheap hydropower from the Bonneville Power Administration in Portland, Ore.

The USDA refused to comment on the lawsuit, but the case could have far-reaching implications for the coal-power business. While the United States relies on coal to generate 50 percent of its electricity, rural electric cooperatives rely on coal for 80 percent of their power and many are planning new plants with the help of low-cost government loans. Despite calls for the federal government to scale back its aid through this Depression-era program, Congress is planning to sharply increase funding for the Rural Utilities Service.

Some rural electric cooperatives have shelved coal plant plans anyway. One of the most ambitious proposals for new coal power plants a year ago was to construct three units with a total generating capacity of 2,100 megawatts in western Kansas. The two cooperatives involved -- Tri-State in Colorado and Sunflower Electric Power in Kansas -- have scaled down the project to two units. One reason was that Colorado adopted a law requiring rural electric co-ops to get 10 percent of their power from renewable resources.

According to the Edison Electric Institute, the utility industry spent more than \$22 billion on electricity generation last year and was expected to spend more this year. That money has, however, been increasingly given to wind and natural gas projects as utilities fret over the prospect of legislation that would regulate or tax carbon dioxide emissions.

Restrictions could come even without legislation. The Sierra Club wants the Environmental Protection Agency to reconsider permits granted for new coal plants on the basis of a Supreme Court ruling this year that said carbon dioxide is a pollutant that must be regulated under the Clean Air Act. The Sierra Club has sued to block or alter a \$2 billion integrated gasification combined cycle (IGCC) plant, a type of coal-fired plant that lends itself to separating out carbon dioxide, that has been proposed for central Illinois. The EPA must respond this month.

Many companies are pushing ahead with permit applications before further obstacles arise.

"There is a slug of projects, maybe as many as 40, that are desperately trying to get their permits, and we are doing everything we can to make sure those investments don't happen," said Bruce Nilles, a Sierra Club lawyer. "Once you do an honest assessment of global warming and the threat it presents . . . these coal plants are the worst legacy we can leave to the next generation."

Coal companies are pressing ahead.

"In fast-growing areas, there's a need to build coal plants," said Frank Maisano, a lobbyist with Bracewell & Giuliani, which represents a variety of coal firms and utilities. He said that while coal opponents had won "a victory here and there," coal remains "an important part of the diverse fuel supply that we have. . . . We have to use coal and use it as cleanly as possible, and environmentalists are going to have to live with that."

One battle has been raging over Peabody Energy's plan to build a 1,500-megawatt coal-fired power plant called Prairie State in southwest Illinois. The plant's cost has ballooned to \$2.9 billion. Two of the original partners, Wisconsin Public Power and CMS Energy, have pulled out of the project. CMS Energy said "at this time, it does not meet our investment criteria."

Peabody said it has found customers for 80 percent of the plant's output and vows to begin construction this

fall.

In Nevada, the utilities Reid has targeted also vow to forge ahead. Roberto Denis, senior vice president of energy supply at Sierra Pacific Resources, said its proposed 1,500-megawatt coal facility would enable it to close a less efficient 300-megawatt coal plant built in the 1960s. He said the planned facility, 250 miles north of Las Vegas, would involve transmission lines to help bring on wind energy from the mountains there. It is, he said, "a winning combination." And he said the new plant was needed to meet electricity demand, which is rising by 4 to 5 percent a year.

But Jon Summers, an aide to Reid, said the plant would import 7 million tons of coal a year from other states, "destroying the air not only over Nevada but over the entire western region."

Summers said Reid believes he can promote that alternative energy sources could produce 3,300 jobs and all the power the state needs.

"There's been a lot of talk about the need to reduce our reliance on fossil fuels but not a lot of action taken," Summers said. "Sen. Reid saw this as the right time to take a step forward rather than taking a step backward and increasing our reliance on coal."