

ISSUE IN BRIEF

CLEAN COAL TECHNOLOGY - INCENTIVES

Position: NMA supports incentives in the form of investment and production tax credits to: 1) offset the technological and financial risks associated with the early commercial applications of advanced clean coal technologies; and 2) assist in repowering existing coal based generation facilities with clean coal technology to achieve efficiency and environmental improvements. NMA supports extending the availability of these credits to rural electric cooperatives, municipal utilities and to TVA.

Background: Today, more than one half of U.S. electricity is generated from increasingly clean coal-based power plants using readily available, domestic, low cost coal. By 2025 demand for electricity will increase by more than 52 percent, requiring the construction of a large number of new base load plants. At the same time, new and more stringent emission limits are being proposed, both through legislation (Clear Skies) and by regulation, for the nation's existing electric generating fleet. New clean coal technologies can be retrofitted to existing plants, allowing them to satisfy the current electricity demand while complying with the new emission limits. Advanced clean coal technologies, which reduce criteria pollutants to *de minimis* levels, can be used to construct new plants to meet future load growth. Use of these new technologies is important to maintain fuel diversity and to provide the American consumer with reliable and affordable electricity while meeting environmental requirements. However, the inherent financial and technological risks associated with first-of-a-kind technologies create significant barriers to market entry, especially in newly competitive electricity markets. As a result, incentives for a limited number of plants are needed to help commercialize these new technologies.

Issue: There is bi-partisan support for incentives to promote the use of advanced clean coal technologies, and stand-alone legislation has been introduced in both the House and the Senate. The comprehensive energy legislation recently passed by the Senate includes production tax credits for emission reductions and efficiency improvements at existing coal based generating plants. Both production and investment tax credits are included for investment in advanced clean coal technologies. These credits would be available to a limited number of plants installing advanced pulverized coal, pulverized fluidized bed, integrated gasification combined cycle or in "as yet to be developed" technologies. Credits would be extended to non-tax paying entities such as rural electric cooperatives, municipal electric systems and TVA. Although included in the energy bill that passed the House during the 107th Congress, these incentives were not included in the bill passed by the House early in the 108th Congress. NMA urges the House-Senate Conference Committee to include these provisions in the final bill it reports to the Congress.

Impact: The production tax credits will allow smaller plants – less than 300 MW capacity before retrofit – to remain operating while using new technologies that ensure new emission limits can be met. The incentives for a limited amount of new capacity will ensure the most advanced technologies are brought into the commercial market place at a cost that is competitive with more conventional technologies. Once proven on a commercial basis with the help of these tax incentives, the technologies will be cost competitive without them. By making affordable, coal fired electricity available while continuing to meet our important environmental goals, the long-term winner is the American consumer and the American economy.