

# The Washington Post

## Coal's burnout: Have investors moved on to cleaner energy sources?

By Steven Mufson  
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The headline news for the coal industry in 2010 was what didn't happen: Construction did not begin on a single new coal-fired power plant in the United States for the second straight year.

This in a nation where a fleet of coal-fired plants generates nearly half the electricity used.

But a combination of low natural gas prices, shale gas discoveries, the economic slowdown and litigation by environmental groups has stopped - at least for now - groundbreaking on new ones.

"Coal is a dead man walkin'," says Kevin Parker, global head of asset management and a member of the executive committee at Deutsche Bank. "Banks won't finance them. Insurance companies won't insure them. The EPA is coming after them. . . . And the economics to make it clean don't work."

From 2000 to 2008, construction started on 20 units in 19 plants, according to Edison Electric Institute. Last year, utilities and power-generating companies dropped plans to build 38 coal plants while announcing that they would retire 48 aging, inefficient ones, according to the environmental group

Sierra Club.

Although 2010 saw the collapse of climate legislation in the Senate, the Sierra Club is trumpeting such statistics as a sign that "coal is a fuel of the past."

The battle over coal plants could sharpen in 2011, as the Environmental Protection Agency deploys regulations to improve the efficiency - and lower the greenhouse gas emissions - of big power plants.

Starting Sunday, the EPA will require builders of plants big enough to emit 75,000 tons of carbon dioxide a year to use the "best available control technology" in order to obtain air permits, needed before construction. Utilities, oil refiners and other industries argue that this will add prohibitive costs, and many Republican

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lawmakers have vowed to handcuff the EPA, which is also planning to issue broader guidelines later in the year.

In the wake of the midterm elections, President Obama identified promotion of natural gas use as an area of potential bipartisan action. He hopes to prod utilities and manufacturers into switching from coal to natural gas, which emits half the amount of greenhouse gases. The choice looms large given that the average age of the U.S. coal fleet is 43 years, with more than half the plants built before 1967.

Word of coal's death might be premature, says Luke Popovich, spokesman for the National Mining Association. He said that several coal-fired plants begun earlier are still under construction. Duke Energy, for example, is expecting to finish its Cliffside and Edwardsport coal plants in 2012.

Other companies have scrambled to get permits before the EPA regulations take effect, and projects in Texas, Kansas and Illinois have succeeded. A project in Mississippi is poised to break ground, though the Sierra Club is still fighting in court to revoke the plant's permits.

Moreover, Popovich adds, the federal Energy Information Administration expects that the nation will need to build 30 to 40 new plants to supply the 21 gigawatts of new electricity

demand expected by 2035.

"Coal will remain the dominant source for electricity generation for the foreseeable future," he says. "So the big problem with the 'death of coal' message is that it is not, as we say, reality-based."

Even if coal is not dead, developments of the past two years have dimmed its future.

The fate of the long-planned Smith Unit No. 1 coal plant in Kentucky is one example. The East Kentucky Power Cooperative announced plans five years ago to build the 278-megawatt plant, and it obtained permits from the Kentucky Public Service Commission. But environmental groups, joined by critics of federally subsidized loans to rural electric cooperatives, fought the project.

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Then the recession hit and tipped the scales. A couple of months ago, the cooperative slashed 9 percent from its forecast of electricity demand among the half-million customers it serves.

As a result, East Kentucky Power canceled the Smith coal plant construction on Nov. 18, even though it has spent about \$150 million stockpiling steel and parts. "And that's almost entirely due to the economy," says Nick Comer, the cooperative's manager of external affairs. Finishing the plant would have cost an estimated \$819 million more.

"Back in 2006-07, the economy was roaring. In our service territory we were seeing growth at about twice the national rate," Comer says. "There were a lot of new houses, new businesses; even manufacturing was expanding."

But, Comer adds, "a lot of that has changed today. Housing starts are down. Manufacturers have cut back. So we expect demand for electricity is going to be down from what we had projected for a while."

The story is the same across the nation. Coal consumption in the electric power sector during the first nine months of 2010 was up from 2009, but still down 5.7 percent from 2008's near-record levels, according to EIA figures.

East Kentucky Power also signed a settlement with environmental groups under which it will install additional pollution control devices and further explore renewable energy options.

American Electric Power, the nation's largest generator of electricity, is also taking a cautious approach. The only plant AEP has under construction is the highest efficiency model, known as "ultra supercritical." Under the new EPA guidelines, these high-efficiency plants could become the standard, reducing coal use.

"We have no other coal-fueled generation planned at this time," says Pat D. Hemlepp, a spokesman for AEP. "The decline in demand has delayed the need for additional new generation."

If AEP does need new generation capacity, it

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will turn to natural gas. In 2010, the wellhead price of natural gas has averaged \$4.25 a thousand cubic feet, about 40 percent below the average price from 2005 to 2009 and well under half the peak price.

Discoveries of new ways to tap natural gas trapped in shale rock have unlocked supplies that could keep prices in check for years to come.

"When we do need new capacity, it is highly likely that we will look to natural gas plants instead of coal, especially if natural gas prices remain as low as projected," Hemlepp says. "The plants are less expensive to build, and current forward price projections favor gas over coal."

It's a decision being made by utilities across the country. A recent Deutsche Bank report says that if gas prices remain between \$4 and \$6 a thousand cubic feet, "we believe that a coal to gas switch makes sense."

Even though Congress failed to enact climate legislation, more than half the states have adopted measures requiring utilities to use more renewable energy. To meet those targets, most investment will probably go into solar, wind, nuclear and energy efficiency projects.

Environmental groups are gearing up to challenge coal plants state by state. The Sierra Club is expanding its ranks this year

so that 100 full-time staffers will be working on the issue, and the Environmental Defense Fund is hiring additional lawyers to wage battle against coal.

Given the age of the coal fleet, many of the oldest plants also run afoul of clean air guidelines on traditional pollutants.

As a result, the Colorado Public Utilities Commission recently adopted a \$1.4 billion plan that will end coal-fired electricity generation in the Denver area. It calls for Xcel Energy to close four coal-fired units in the region, switch another to natural gas and build a new gas-fired plant to help meet federal clean-air standards. The units are all more than 40 years old.

The plan was required under the Colorado Clean Air-Clean Jobs Act, signed by Gov. Bill Ritter (D) in April.

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"Coloradans across the state made it clear that they did not want coal in their stockings this year," said Pam Kiely of Environment Colorado. "The PUC delivered an early Christmas present by deciding to stop burning dirty coal in the metro area."

The Obama administration might also target coal-fired power plants as a way to meet its goals for reducing greenhouse gas emissions, even if legislation remains beyond its grasp. Administration officials have spoken of negotiating guidelines with big utilities, similar to automobile fuel efficiency standards, but utility executives say such talks are not yet taking place.

Deutsche Bank's Parker thinks that a path to lower coal use not only makes financial sense but climate sense as well.

"Switching coal to natural gas and renewable energy with a modest buildup of nuclear energy is achievable and could lead to a 29 percent reduction in CO2 emissions from the U.S. power sector by 2020 and a 44 percent reduction by 2030 compared to a 2005 baseline," the bank wrote in its November report on a low-carbon energy plan for the United States.

At international climate talks, negotiators often use the year 2005 as a baseline. At the Copenhagen climate talks a year ago, the Obama administration pledged a 17 percent

reduction in overall U.S. emissions by 2020.

In 2002, there were plans to install 36,000 megawatts of new coal-fired power by 2007. Only one-eighth of that was completed.

Deutsche Bank predicts coal's share of electric power generation will tumble further, from 47 percent in 2009 to 34 percent in 2020 and 22 percent in 2030.

It put it this way in its report: "Based on today's energy fundamentals, the rational economic decision is to shutter inefficient coal plants and replace them with natural gas combined-cycle power plants."

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