

News  
From \_\_\_\_\_

CONGRESSMAN

# Nick Rahall

WEST VIRGINIA-4th DISTRICT

FOR IMMEDIATE RELEASE  
AUGUST 21, 1981

CONTACT: MIKE SERPE  
202-225-3452

## RAHALL CALLS FOR HEARINGS ON COAL CONVERSION

WASHINGTON D.C. --- WEST VIRGINIA'S FOURTH DISTRICT CONGRESSMAN NICK J. RAHALL, CHAIRMAN OF THE CONGRESSIONAL COAL GROUP, HAS CALLED ON THE HOUSE WAYS AND MEANS COMMITTEE TO HOLD HEARINGS ON RAHALL'S COAL CONVERSION BILL WHEN CONGRESS RETURNS TO WORK FOLLOWING THE AUGUST DISTRICT WORK PERIOD.

"THIS COUNTRY NEEDS A NATIONAL ENERGY POLICY," RAHALL STRESSED, "AND COAL CAN BE A FOCAL POINT FOR THAT POLICY. THE TIME IS NOW FOR US TO ACT ON THE FORMATION OF SUCH A PROGRAM."

IN A LETTER TO WAYS AND MEANS CHAIRMAN DAN ROSTENKOWSKI, RAHALL SAID, "WHILE THE INCENTIVES PROVIDED IN THE ECONOMIC RECOVERY TAX ACT OF 1981 WILL BE HELPFUL....I FEAR IT IS NOT ENOUGH."

"THE NATION'S ELECTRIC UTILITIES ARE FINDING IT INCREASINGLY DIFFICULT TO RAISE THE NEEDED CAPITAL FOR COAL CONVERSION...IN LIGHT OF THIS SITUATION, ADDITIONAL INCENTIVES ARE NEEDED TO WEEN COAL-CAPABLE UTILITIES OFF OIL TO COAL," CONGRESSMAN RAHALL ADDED.

\*\*\*A COPY OF CONGRESSMAN RAHALL'S LETTER IS ATTACHED, ALONG WITH AN INFORMATION PACKAGE ON THE COAL CONVERSION BILL, HR 2325.

NICK J. RAHALL, II  
4th DISTRICT, WEST VIRGINIA

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TO: COAL GROUP MEMBERS

FROM: NICK J. RAHALL

SUBJECT: UPDATE ON COAL CONVERSION

Enclosed you will find an update on issues affecting electric utility conversion to coal. It appears that despite efforts to weaken coal conversion programs they have fared well through the budget, tax and appropriations process.

The major thrust of the programs examined in this memorandum is to provide special incentives for utility conversion to coal as part of the effort to wean this nation from its dependence on imported oil.

While the present Administration believes that federal intervention in the energy field should be reduced so the marketplace can decide which fuels should be produced and used, I do not feel this philosophy can be applied to utility coal conversion. First, competing fuels to coal such as natural gas are still regulated by federal pricing policies. Secondly, the electric utility industry's decisions are based to a large degree by what government entities in the form of state public utility commissions allow. These bodies have supplanted the marketplace in the utility industry, sacrificing competition for efficient service.

I hope the enclosed material will be useful to you and your staff. If you have any questions please do not hesitate to contact me or my legislative assistant, Jim Zoia, at x53452.



HOUSE COAL GROUP  
Update on coal conversion

Department of Energy  
Economic Regulatory Administration  
Office of Fuels Conversion

The Reagan Administration, in its "Program for Economic Recovery," has proposed the elimination of ERA's Office of Fuels Conversion in its FY82 budget request. However, the House-passed Department of the Interior and Related Agencies Appropriations bill for FY82 allowed \$5 million for this program. Of this amount \$4.5 million is designated for prohibition orders and \$500,000 for exemptions. According to the Committee on Appropriations' report, this funding will permit the issuance of approximately 38 prohibition orders for those utilities which desire to convert to coal. The conversion of these units could displace approximately 240,000 barrels of oil per day. "In view of the obvious advantages of the program, the Committee does not understand the reluctance of the Administration to see the voluntary orders completed and exemptions processed," the report states. While the Senate has not yet acted on the appropriations for this area, the Senate Committee on Appropriations has taken identical action as the House in funding the Office of Fuels Conversion.

On June 10, 1981, several members of the House Coal Group wrote to President Reagan urging his Administration to continue the coal conversion program. Responses were received from Assistant to the President Max L. Friedersdorf and Office of Management and Budget Assistant Director for Legislative Affairs Jonna Lynne Cullen. "We recognize the Department may need to continue some minimal coal conversion activities in 1982," Cullen said. However, she added that "the Department has not finalized plans for this program in 1982."

Omnibus Budget Reconciliation Act of 1981  
Powerplant and Industrial Fuel Use Act of 1978  
Amendments to Section 301

Over the past several months there has been talk in Congress to make changes in the Powerplant and Industrial Fuel Use Act. Some have even suggested the Act be repealed in its entirety. The issue seems to have been laid to rest with the passage of the Omnibus Budget Reconciliation Act of 1981 which makes several changes in the Act. Primarily, the provisions of the Act which restrict the use of natural gas in utility boilers have been repealed, allowing gas-fired units to continue on natural gas after 1990. This should not have a great impact on coal conversion as these units probably would have switched to oil under the prohibition. The section of the Act pertaining to coal conversion remains intact with some modification. If the owner or operator of an existing electric powerplant certifies to the Secretary of Energy that the plant is coal-capable and that a switch to coal would not require substantial modification of the plant; create a substantial reduction in the rated capacity of the plant; and, would be financially feasible the Secretary could prohibit the use of petroleum or natural gas in that plant.



HOUSE COAL GROUP  
Update on coal conversion

Economic Recovery Tax Act of 1981  
Public utility property  
Depreciation schedule for converting powerplants

Presently, electric utility steam plants have a class life of 28 years on the average and are allowed a choice within asset depreciation range (ADR) which extends 20 percent above and below asset class life. With the new tax law, however, steam plants will be identified under the 15-year class. Moreover, special consideration will be given to utilities converting from oil and natural gas to coal. These plants will be allowed a 10-year depreciation schedule. Pollution control equipment can be amortized over 5-years.

The Coal Utilization Incentives Act of 1981  
H.R. 2325

While the Economic Recovery Tax Act of 1981 contains a commendable depreciation schedule for converting utility property, given the poor financial health of the electric utility industry plus the large amount of capital necessary to meet the most minimal requirements of the future, the ability to generate capital internally through accelerated depreciation is crucial. Regardless of the lower price of coal compared to oil and natural gas, many utilities are simply unable to raise the capital needed to convert. The reasons for this situation include tight capital markets, high interest rates and the depressed market value of existing equity issues along with rate making practices of many state public utility commissions.

In light of this economic environment, I introduced on behalf of many Coal Group Members The Coal Utilization Incentives Act of 1981. Enclosed you will find a fact sheet on H.R. 2325 and a list of cosponsors. In the coming months I will continue to urge the Ways and Means Committee to consider this legislation. It is my understanding that the Senate counterpart, S. 1252 introduced by Senator John Heinz, will be considered by the Subcommittee on Energy and Agricultural Taxation of the Senate Committee on Finance sometime this fall.



## FACT SHEET

The Coal Utilization Incentives Act of 1981  
H.R. 2325  
Congressman Nick Rahall, II

### Title I - Amendments to the Internal Revenue Code of 1954

#### Section 195 - Amortization of Coal Utilization Property

Under present law, an individual or entity is permitted to deduct from their tax liability a portion of the declining value of a particular item. This bill will allow coal utilization property (boiler, burner, pollution control equipment and coal cleaning facilities) to be amortized over a 36-month period.\* However, at the election of the utility, pollution control equipment may be amortized over a 12-month period.

#### Section 102 - Energy Tax Credit

Under the Energy Tax Act of 1978 and the Crude Oil Windfall Profit Tax Act of 1980, a 10 percent energy tax credit was made available to individual and business taxpayers as incentives toward energy conservation and the development of alternative sources of energy (in the case of solar applications the energy tax credit is 15 percent). Utilities were excluded from claiming energy tax credits. This bill will allow utilities to receive the energy tax credit.

#### Section 103 - Full Investment Tax Credit

Present law allows a utility to use the 10 percent investment tax credit to absorb a portion of its tax liability (currently about 50 percent). What often occurs in the case of a utility is that its tax liability is less than the credit allowed. This bill will enable a utility to use the entire investment tax credit.

#### Section 104 - Industrial Development Bonds

Under present law municipalities are precluded from issuing industrial development bonds for utility concerns. This bill will allow various local entities to issue these tax-free debentures to assist utilities in the massive cost of conversion.

### Title II - Coal Conversions Under the Clean Air Act

Section 201 - This section amends Section 111(a)(8) of the Clean Air Act which defines modifications of existing sources. Under present law, when an existing source is modified it is subject to New Source Performance Standards. This bill will allow utilities which voluntarily convert to coal to not be classified as a modification and therefore not subject to NSPS.

Section 202 - This section amends Section 113(d)(5)(a) of the Clean Air Act so that voluntary conversions will be eligible for delayed compliance orders now available to units ordered converted under the Powerplant and Industrial Fuel Use Act of 1978.

\*The Economic Recovery Tax Act of 1981 allows utilities converting to coal a 10-year depreciation schedule for boilers and burners. Most of this equipment has a present class life of 28 years.



NICK J. RAHALL, II  
4TH DISTRICT, WEST VIRGINIA

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**COSPONSORS TO H.R. 2325, THE COAL UTILIZATION INCENTIVES ACT OF 1981**

Democrats

Mollohan (W.Va.)

Bevill (Ala.)

Murtha (Pa.)

Kogovsek (Col.)

Applegate (Ohio)

Murphy (Pa.)

Florio (N.J.)

St. Germain (R.I.)

Coelho (Calif.)

Evans (Ga.)

Neal (N.C.)

Bailey (Pa.)

Wilson (Tx.)

Atkinson (Pa.)

Simon (Ill.)

Gaydos (Pa.)

Yatron (Pa.)

Luken (Ohio)

Ertel (Pa.)

Price (Ill.)

Bouquard (Tn.)

Republicans

Rogers (Pa.)

Clinger (Pa.)

Benedict (W.Va.)

Young (Alaska)

Courter (N.J.)

Miller (Ohio)

Railsback (Ill.)

McDade (Pa.)

Porter (Ill.)

Skeen (N.M.)

Goodling (Pa.)

Daub (Neb.)

Duncan (Tn.)

Myers (Ind.)

Nelligan (Pa.)

Staton (W.Va.)

Coyne (Pa.)



**CONEG**  
**COALITION OF NORTHEASTERN GOVERNORS**  
400 NORTH CAPITOL STREET, N.W.  
SUITE 382  
WASHINGTON, D. C. 20001  
(202) 624-5440

GOVERNOR DICK THORNBURGH, Chairman  
GOVERNOR J. JOSEPH GARRAHY, Vice-Chairman

RESOLUTION

WHEREAS, abundant domestic coal resources have the potential to reduce dramatically our nation's dangerous dependence on imported petroleum; and

WHEREAS, many oil and gas-fired electric utilities are unable to convert to coal due to unfavorable financial situations; and

WHEREAS, the CONEG Governors have met and considered these financial problems associated with the greater use of coal and its substitution for oil and gas;

NOW, THEREFORE, be it resolved that the CONEG Governors do support the adoption of federal legislation which fosters utility coal conversion through the provision of tax incentives and bond eligibility. Such legislation should include provisions which (1) permit coal utilization property to be amortized over a 36-month period; (2) permit pollution control equipment to be amortized over a period of one year; (3) allow energy credits to public utilities for coal utilization property; (4) allow full investment tax credit to public utilities for coal utilization property; and (5) insure that industrial revenue bonds certified as necessary to finance construction of coal-burning facilities and related pollution control equipment will be given tax-exempt status.





**National Governors' Association**

HALL OF THE STATES

444 North Capitol Street • Washington, D.C. 20001

To reduce the nation's dependence on foreign sources of oil and gas, the federal government is formulating an energy program that relies on significantly increased use of domestic coal by the year 2000. Within five to ten years, coal conversion processes can offer a solution to the availability problems of oil and natural gas. The federal government should sponsor extensive research and development programs to advance coal conversion technology. This must be paralleled by the federal financing of pilot conversion plants in all coal-producing regions. Tax credits and other considerations should be granted to industry and utilities that convert to coal and to states lacking adequate facilities to transport coal. The national interest requires:

- o the immediate reduction and eventual elimination of oil, and to a lesser extent gas, as a utility boiler fuel. The Governors support federal legislation to mandate the reconversion of coal-capable boilers where practical and to encourage accelerated construction of new coal-fired utility and industrial boilers and the use of coal-oil mixtures. Grant funds should be available to utilities for those conversions that would not otherwise be financially feasible, while loan funds should be utilized where they are sufficient to ensure timely conversions. IN ADDITION, ALL PROPERTY AND PERIPHERAL EQUIP-

MENT ASSOCIATED WITH ANY MANDATORY OR VOLUNTARY CONVERSION FROM OIL OR GAS TO COAL SHOULD QUALIFY FOR ACCELERATED AMORTIZATION OR DEPRECIATION UNDER THE INTERNAL REVENUE CODE, THE FULL INVESTMENT IN ANY COAL CONVERSION SHOULD QUALIFY FOR FEDERAL INVESTMENT TAX CREDIT, AND BONDS TO FINANCE COAL CONVERSION RELATED COSTS SHOULD BE EXEMPT

FROM FEDERAL TAXATION. The Governors believe that utility fuel conversions should be made in full compliance with existing air quality standards. Coal conversion legislation should not abridge the responsibilities of the states as clearly delineated under the Clean Air Act to develop implementation plans for the control of emissions from coal- and oil-fired power plants. However, Congress should provide financial and other incentives to address the interstate problem of acid precipitation, which has a deleterious impact on the economy and ecology of the Northeast and other regions of the nation.

- o immediate relief for the coal industry from unnecessary regulations and legislation in order to engage in a greatly accelerated production effort. Coal is our most abundant and readily accessible domestic energy resource. However, in recent years coal production in the United States has increased only moderately. In order to take advantage of this critically important resource, demand constraints should be eliminated by clear and consistent utilization rules and appropriate financial assistance to cover burdensome, front-loaded conversion costs. In addition, the 1977 national energy plan coal



of producing and using 1.2 billion tons of coal by 1985 should be reinstated with periodic reviews at the federal level as to the progress and/or problems of its accomplishment. All of this will require substantial consolidation and streamlining of the conflicting rules and interpretations among the various federal agencies now inhibiting coal development.

A comprehensive coal program must protect the physical, social, and economic environment of the producing region. The quality of air and water must not be diminished because of mining activities or coal utilization. To promote the clean use of coal, the Department of Energy should make the development of coal desulfurization technologies its highest priority.



NICK J. RAHALL, II  
4TH DISTRICT, WEST VIRGINIA

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August 17, 1981

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The Honorable Dan Rostenkowski  
Chairman, Committee on Ways and Means  
1102 Longworth House Office Building  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Mr. Chairman:

One major implication of the Economic Recovery Tax Act of 1981 is that it has gone a long distance toward establishing public utility property as a class of property receiving separate treatment under the U.S. tax laws. This Act places public utility property into separate classes not only for ratemaking treatment, but for the calculation of the tax benefits themselves.

While this action has uncertain significance since different types of public utility property are under differing economic and regulatory schemes, I believe it is beneficial to the beleaguered electric utility industry--especially in relation to coal conversion. As you know, the tax conference accepted a Senate provision which allows electric utilities converting from oil and natural gas to coal a 10-year depreciation schedule. This highly commendable action will provide needed incentives for utility coal conversion. However, I fear it is not enough and would like to once again bring to your attention the Coal Utilization Incentives Act of 1981, H.R. 2325, which several Members of the House Coal Group and myself introduced in March of this year.

Enclosed you will find a fact sheet on the provisions of H.R. 2325 along with a list of cosponsors.

In previous letters to you I have already stated my arguments for the need of this legislation. Nonetheless, let me reiterate one point. The nation's electric utilities are finding it increasingly difficult to raise the needed capital for coal conversion regardless of the price advantage of this fuel over oil and natural gas. This is due in part to the practices of many state public utility commissions, and because of tight capital markets, high interest rates and the value of existing equity issues. In light of this situation, additional incentives are needed to wean coal-capable utilities off oil to coal.

I have been advised that the Senate Subcommittee on Energy and Agricultural Taxation of the Committee on Finance will hold hearings



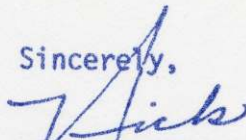
letter to the Honorable Dan Rostenkowski  
August 17, 1981 - page 2

on the Senate counterpart to H.R. 2325 sometime this fall. While I understand the Committee on Ways and Means faces a heavy work load, I urge you to set-aside some time for a hearing on the Coal Utilization Incentives Act of 1981. In this way, we can begin to examine the proposed tax incentives contained in this legislation in a thoughtful and meaningful manner.

I appreciate your consideration of this request and if you have any questions please do not hesitate to contact me.

With warm regard, I am

Sincerely,



NICK J. RAHALL, II  
Member of Congress

NJR/jz

cc: Members of the  
House Coal Group

enclosures