

Department of Legislative Services
Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE

House Bill 743 (Delegate Hucker)
Economic Matters

Electric Companies - Purchase or Use of Mountaintop Coal - Prohibited

This bill prohibits an electric company that operates a coal-fired generating station in Maryland from using or purchasing coal extracted by mountaintop removal mining (MTR). The Public Service Commission (PSC) must ensure that the applicant complies with this prohibition before granting a certificate of public convenience and necessity for a generating station.

Fiscal Summary

State Effect: Potential significant increase in State expenditures due to higher electricity prices. State expenditures will increase by \$2 million for each 1% increase in electricity cost at State agencies. Revenues are not affected.

Local Effect: Potential significant increase in local government expenditures due to higher electricity prices. Revenues are not affected.

Small Business Effect: Meaningful. Potential increase in small business expenditures due to higher electricity prices.

Analysis

Current Law: State law does not specify from where electricity generators in Maryland may purchase coal.

PSC must consider the following items before taking final action on a certificate of public convenience and necessity for a generating station: (1) the recommendation of the governing body of a local government in which any portion of the construction of the

generating station or overhead transmission line is proposed to be located; and (2) the effect of the generating station or overhead transmission line on the stability and reliability of the electric system; economics; esthetics; historic sites; aviation safety; air and water pollution; and waste disposal for the generation station.

Background: MTR is a method of surface mining used to access a coal bed that underlies the top of a mountain. The overburden, which is the mountaintop, is completely removed so that the coal underneath can be recovered. Mountaintop removal may affect the top 250 to 600 feet of Appalachian peaks and ridges. Mountaintop removal creates large quantities of overburden that are disposed of as fill in upper portions of adjacent valleys and their stream corridors. Based on studies of over 1,200 stream segments impacted by MTR, the U.S. Environmental Protection Agency has determined that MTR and the resulting valley fill operations have widespread negative environmental impacts. MTR operations are concentrated in the Appalachian region of eastern Kentucky, southern West Virginia, western Virginia, and scattered areas of eastern Tennessee.

The National Mining Association reports that coal recovered by MTR contributes to approximately 10% of all coal mined in the United States and roughly 40% of coal mined in West Virginia. In 2006, approximately 60% of electricity generated in Maryland was from coal-fired power plants. **Exhibit 1** shows the estimated sources of coal purchased by Maryland electricity generators. This data was obtained by the Department of Natural Resources (DNR) through surveying electricity generators in the State.

State Fiscal Effect: Electric generators in the State do not currently provide PSC with details on the source of coal used in electricity generation. Implementation of the bill can be handled by PSC within existing budgeted resources, provided that the source of coal can be verified. Legislative Services advises that electricity generators may have difficulty determining if coal has been obtained through MTR or otherwise. Verifying that electricity generators are in compliance may be further complicated due to purchase of coal from international sources. According to DNR, approximately 5% of coal purchased by Maryland power plants comes from Russia, Columbia, and Venezuela.

Prohibiting electricity generators in Maryland from purchasing coal extracted by MTR will have a significant impact on the source of coal purchased for electricity generation in the State. According to the U.S. Energy Information Administration, 11.6 million short-tons of coal were consumed by Maryland electric utilities and independent power producers in 2006. A sizeable portion of the coal is likely extracted through MTR. Since West Virginia accounts for nearly 55% of the coal purchased by Maryland power plants and with 40% of coal mined in West Virginia extracted by MTR, at least 22% of all coal used for electricity power plants in Maryland may be obtained through MTR. If electricity generators are forced to purchase this coal from alternative sources, they will

not be able to purchase coal from the lowest-cost source. This will result in an increase in cost of coal used for electricity generation and a corresponding increase in the cost of electricity generated in the State. The State government spends approximately \$204.4 million annually in electricity cost at State agencies. Accordingly, State expenditures will increase by \$2 million for each 1% increase in cost.

Exhibit 1
Coal Purchased by Maryland Power Plants in 2006

<u>Origin of Coal</u>	<u>Tons of Coal</u>	<u>Percent of Total</u>
West Virginia	6,659,293	54.6%
Pennsylvania	4,179,484	34.3%
Maryland	733,176	6.0%
Russia	358,229	2.9%
Columbia	182,351	1.5%
Venezuela	43,727	0.4%
Virginia	25,143	0.2%
Kentucky	9,745	0.1%

Source: Department of Natural Resources

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): U.S. Environmental Protection Agency, U.S. Energy Information Administration, Department of Natural Resources, Public Service Commission, Department of Legislative Services

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