

EPA Plan to Curb New Coal-Fired Power Plants

Agency Ready to Require Costly, Novel Equipment to Capture Greenhouse Emissions

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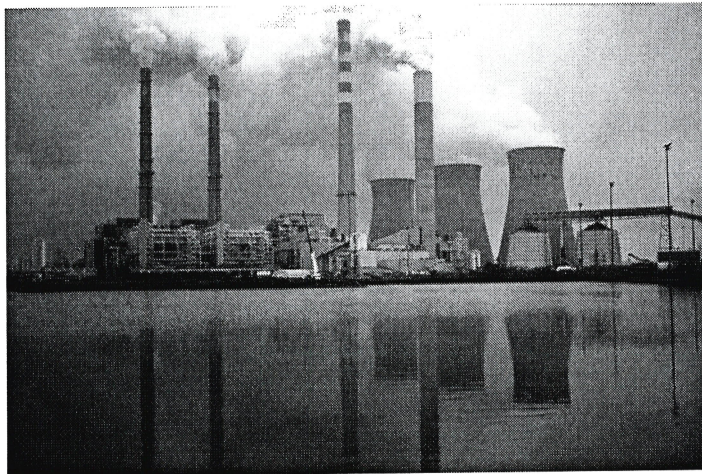
The Wall Street Journal

September 11, 2013

WASHINGTON—The Obama administration plans to block the construction of new coal-fired power plants unless they are built with novel and expensive technology to capture greenhouse-gas emissions, according to people familiar with a draft proposal.

The administration's rule on emissions from new power plants, a long-awaited measure that is one of the capstones of the administration's climate-change agenda, is set to be formally proposed by the end of next week. While the new rule isn't final yet and is likely to face a legal challenge, it would be another blow to a coal industry already buffeted by a bonanza of cheap natural gas and increasing regulation.

The Environmental Protection Agency first proposed a stringent standard for coal-fired plants last year, prompting an election-year debate about whether President Barack Obama was waging what Republicans called a "war on coal." Mr. Obama has said he supports clean-coal technology but also sees an urgent need to tackle the release of greenhouse gases blamed for climate change. Power-plant emissions account for about a third of U.S. greenhouse-gas emissions.



Plumes of water vapor leave the Tennessee Valley Authority Paradise Fossil Plant in Paradise, Ky., on Aug. 13.

.After the resistance last year, many observers had expected the administration to tone down its rule and possibly create a path for new coal plants using existing technology.

But a person who has seen a recent version of the revised rule said it would propose an emissions limit of 1,100 pounds of carbon dioxide per megawatt hour for coal plants and 1,000 pounds per megawatt hour for large gas-fired plants. Last year's version was only slightly different, setting a 1,000-pound limit for both types of plants. The person cautioned that the EPA could still tweak the numbers before it releases them.

The person and others briefed on the rule said such stringent limits would ban new coal plants, which generally release about twice as much carbon dioxide as the proposed limits. Even the newest, most advanced coal-fired power plants in the world would fall far short of that revised standard, they said.

The only way coal plants could comply is to capture carbon-dioxide emissions and stick them underground—a costly process that hasn't been demonstrated at commercial scale before.

"This shows the administration discounts and does not appreciate the value of coal and how it can serve the country. You're impairing the backbone of the power grid," said Hal Quinn, chief executive of the National Mining Association, an industry trade group.

Environmentalists praised the EPA's plan as a way to meet national climate-change goals. The Obama administration has set a target of cutting emissions 17% by 2020, compared with 2005 levels.

Sen. Ed Markey (D., Mass.), a backer of tighter emissions curbs, said: "Natural gas and renewables are showing the cheaper, cleaner way to cut emissions. Coal-mining companies and coal-burning utilities managed to put themselves in this situation, and these new rules might just provide the impetus for them to innovate their way out."

Tackling greenhouse-gas emissions from power plants is at the heart of the climate plan that Mr. Obama announced in June, but it is politically controversial because coal remains the top fuel for power generation in the U.S. About 39% of electricity in the U.S. came from coal-fired plants in the first half of 2013.

EPA spokeswoman Alisha Johnson declined to comment on the specific numbers. She said the agency was working on its revised rule "in light of important comments received by the agency and in a way that considers the viewpoints of all stakeholders." She said the agency was on track to complete the rules by the Sept. 20 deadline set by Mr. Obama.

By effectively banning the construction of new coal plants, the revised rule—assuming it survives challenges—will further accelerate the trend toward greater reliance on natural-gas-fired electricity generation.

The rule is also a crucial stepping-stone for the Obama administration's next big environmental project, emissions standards for the fleet of existing power plants. Mr. Obama has told the EPA to produce those standards by June 2014.

The coal-mining industry and coal-fired power is already under siege because of a glut of domestically produced natural gas that is cheap and cleaner to burn than coal. While U.S. coal exports have risen in recent years and hit a record in 2012, thanks in part to European demand, exports still make up a small fraction of U.S. production, and long-term demand overseas is uncertain. That means the domestic power market remains critical for U.S. coal producers.

Utilities and manufacturers also worry the new rules could lead to an electricity supply crunch or rising prices for consumers. "For the first time ever, EPA is becoming a regulator of energy. The rule they're putting out there is going to force choices as to which energy you use, and that's a very disturbing concept for manufacturers, for businesses, for anybody that has to comply with these laws," said Ross Eisenberg, the vice president for energy policy at the National Association of Manufacturers, a trade group.

Opponents of the revised rule have at least two chances to change it. The administration will open the proposal up to a fresh round of public comments before deciding whether to make the standard final, a decision that could come early next year. However, the comments are unlikely to alter the administration's view significantly since it already considered the clashing views of industry and environmental groups when shaping the revised rule coming out this month.

The other chance to overturn the rule would come in the courts, and if the rule is made final next year, a lawsuit would likely follow.

EPA regulation of greenhouse gases, which is governed by the Clean Air Act, has to be achievable based on technology that has been successfully proven. Power plants with carbon capture and storage—known as CCS—have been demonstrated at small scales, but never at full commercial scale in the U.S.

The EPA believes the technology is proven based on the Kemper plant, a state-of-the-art, coal-fired plant that Southern Co. is building in Mississippi, according to people familiar with the agency's position.

The Kemper plant will use cutting-edge gasification technology to capture two-thirds of the plant's emissions and make it nearly as clean as a natural-gas plant, but the project has cost more to complete than expected. Furthermore, the Kemper plant benefits from an oil field nearby where it can pump the captured carbon dioxide and store it. It is also optimized to use low-grade, local lignite.

"It's the perfect storm of non-replicability" for other power plants, said Jeff Holmstead, an EPA official under President George W. Bush who is now a partner at the Bracewell & Giuliani law firm in Washington that has clients who oppose such rules. "If the EPA finalizes a rule like this, there will certainly be legal challenges," he said.

Big utilities also said it would be unfair to force new coal plants to have the carbon-capture technology. "We firmly believe CCS is not a demonstrated technology that meets the requirements of the Clean Air Act," said Melissa McHenry, a spokeswoman for AEP Inc., one of the biggest U.S. utilities.

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