

Federal Loans for Coal Plants Clash With Carbon Cuts

By Steven Mufson - <http://www.washingtonpost.com/wp-dyn/content/article/2007/05/13/AR2007051301105.html?hpid=topnews>
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A Depression-era program to bring electricity to rural areas is using taxpayer money to provide billions of dollars in low-interest loans to build coal plants even as Congress seeks ways to limit greenhouse gas emissions.

That government support is a major force behind the rush to coal plants, which spew carbon dioxide that scientists blame for global warming.

The beneficiaries of the government's largesse -- the nation's rural electric cooperatives -- plan to spend \$35 billion to build conventional coal plants over the next 10 years, enough to offset all state and federal efforts to reduce U.S. greenhouse gas emissions over that time.

The Office of Management and Budget wants to end loans for new power plants and limit loans for transmission projects in the most remote rural areas. But the powerful National Rural Electric Cooperative Association deployed 3,000 members on Capitol Hill last week to push Congress to keep the program intact, arguing that the loans for new coal plants are needed to keep electricity cheap and reliable in rural areas.

Environmentalists have also targeted the program. They say it removes any pressure for the rural co-ops to promote energy efficiency or aggressively tap renewable resources. Rural co-ops rely on coal for 80 percent of their electricity, compared with 50 percent for the rest of the country, and electricity demand at rural co-ops is growing at twice the national rate.

The money comes from the Agriculture Department's Rural Utilities Service, an outgrowth of the Rural Electrification Administration created in 1935 by President Franklin D. Roosevelt to bring electricity to farms. More than 70 years later, the goal of providing electricity to rural areas has long been accomplished, but the federal government is still making the subsidized loans.

Rural-utility cooperatives are owned by their customers; they are nonprofit organizations. There are more than 800 co-ops that distribute electricity and more than 50 that own power-generating plants.

James R. Newby, assistant administrator of the Rural Utilities Service, estimates that federal loan rates are 2 to 2.25 percentage points lower than the rates for commercial loans. Some budget experts say the favorable federal loans have reduced the cost of new power generation by 15 percent.

But many of the utility co-ops that are considered rural provide electricity to expanding suburbs, such as the Dallas-Fort Worth metropolitan area, the Atlanta area and parts of Northern Virginia. Others are expanding to meet growing commercial, residential and tourism demands. And some are facing demands from the growing number of ethanol plants, blunting the climate-related benefits of producing ethanol.

"Rather than declare the mission accomplished and disband the expensive subsidy program, Congress continued it and allowed it to become even more generous," a 2004 Heritage Foundation report said.

Ronald D. Utt, co-author of the report and a former official at the OMB, calls the program a "remnant of the New Deal." "Poverty is no longer a characteristic of the agricultural community as it was during the

Depression . . . and as areas have grown, the basic clientèle are well-to-do people who have nothing to do with agriculture," Utt said. Many of the areas served by co-ops are densely populated and do not need help, critics say.

James J. Jura, chief executive of Associated Electric Cooperative, a co-op that has both government and commercial loans, said much of his region's growth comes from retirement and recreational developments near lakes around Branson in southwest Missouri. The town's Web site boasts of a 17-story luxury condominium complex, a new shopping mall, 17,000 hotel rooms and dozens of theaters. "No, this isn't Manhattan or Las Vegas; it's Branson, Missouri," the site says.

Glenn English, chief executive of the National Rural Electric Cooperative Association, said rural areas still need help to meet growing power demands at reasonable costs and that burning coal makes sense. He said per capita income of co-op members and consumers is 15 percent below the national average.

The key to the longevity of the Agriculture Department's programs for rural utilities has been the co-ops' powerful political voice. More than 30,000 members gave an average of \$41 last year to the co-op association for political contributions. Given their geographic scope, the co-ops can mobilize letter-writing campaigns across a vast number of states and congressional districts.

Rural utilities often assume broader roles in local economies. One co-op, English said, reopened a gas station that went out of business. Another, he said, bought and kept open a beloved Dairy Queen.

"Sometimes they can take over functions even local government can't," said English, a former Democratic congressman. And that, he said, can help keep people from moving away from places like his home town of Cordell, Okla., where the population, now about 3,000, peaked in the late 1920s.

Although presidents over the years have tried to curtail the rural-electricity lending program, it has survived, proving one of the basic laws of legislative thermodynamics: Creating a government program is easier than killing one.

This year is no exception. In his fiscal 2008 budget, President Bush asked Congress to tighten lending rules for rural co-ops. Reps. Allen Boyd (D-Fla.) and Frank D. Lucas (R-Okla.) are gathering signatures for a letter asking that the low-cost government loans be continued.

English chalks it up to "political gamesmanship." "Congress knows that the president expects them to restore that money so that it doesn't look like he's the big spender," he said. "So Congress will tweak it and get it back to where the president wanted it in the first place."

Among those asking for federal loans:

- The Seminole Electric Cooperative in Tampa is planning a \$1.8 billion, 750-megawatt coal plant that would boost the utility's generating capacity by 60 percent. The co-op applied for a \$1.4 billion loan. If approved, the interest rate for the heavily indebted co-op, which Standard & Poor's says has less than a month's worth of cash, would be as low as the rates for the most rock-solid corporate bonds.
- A group of rural cooperatives plans to build two, 700-megawatt plants in western Kansas. *Denied*

- The East Kentucky Power Cooperative -- which is fighting the Justice Department over alleged violations of the Clean Air Act -- has received approval for Rural Utilities Service loans to pay for new coal-fired capacity.

English acknowledged that global warming has shifted the debate. But, he said, any climate change legislation should show leniency toward the rural co-ops. "Rural electric generating cooperatives . . . are in economic situations that make it very hard for them to invest in cutting-edge technologies," he wrote in a letter to the House Energy and Commerce Committee.

English is quick to point out that taxable utilities get tax breaks to encourage wind farms or more-efficient coal plants, and that municipal utilities can sell tax-exempt bonds to raise money cheaply. English wants Congress to give the nonprofit, tax-exempt rural utilities similar incentives, such as no-interest loans.

In March, 10,000 rural-utility executives and spouses attended their annual meeting in Las Vegas. Guests included former CIA director R. James Woolsey Jr., former NFL coach Mike Ditka and singer Charlie Daniels.

English rallied the association's members to fight proposed laws on climate change that might hurt the rural co-ops. Such proposals would mean higher electricity rates, he said, and that would anger voters.

"So are we supposed to tell members of Congress that you've got to be willing to sacrifice your seat for the sake of energy efficiency?" he said. "I don't think the political community wants to take out the knife and commit hara-kiri."