COALEX STATE INQUIRY REPORT - 207

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TOPIC: ENVIRONMENTAL EXTERNALITIES

INQUIRY: One of the environmental issues to be discussed at the upcoming American Mining Congress (AMC) convention is "Environmental Externalities: Indirect Taxes on Electricity". California may already have a law dealing with this on their books. Can you locate any existing information on this issue or people to contact for information?

SEARCH RESULTS: Using LEXIS, a number of relevant public utilities cases and articles from energy-related publications were identified. Some California Public Utility Commission documents and industry position papers were obtained from the AMC seminar organizers.

The materials attached cover the issue from a variety of perspectives, such as:

1. Origins and definition of the phrase "environmental externalities".
2. Articles reviewing recent studies and discussing trends among an increasing number of state public utility commissions to include "environmental externalities" in resource planning.
3. EPA and Congressional involvement with the issue.
4. Examples of state public utility commissions documents incorporating environmental externalities into their energy purchasing.

Some introductory information appears below. A list of all of the materials included with the report appears in the "ATTACHMENTS" section.

GENERAL INFORMATION

"Environmental externalities" or "environmental adders" are costs added to the calculation of power prices to account for pollution.

According to the AMC:
"Some state regulatory commissions, including the [California Public Utility Commission], are requiring electric utilities to consider certain environmental externalities in evaluating the need for new generating units or for operating existing units. Utilities are required to assign dollar values to selected environmental externalities and to add those values to the unit costs of each supply option responsible for the impact."

"The environmentalists are strong advocates of the internalization of environmental externalities, particularly regarding fossil fuel production and consumption, to the exclusion of other social and economic externalities. They argue that renewable energy sources such as wind and solar power do not have the same external environmental costs of coal, and that coal-fired electricity remains less expensive than renewables only because the true social costs of using coal are not reflected in its market price."

"The net result of the greater application of so-called environmental externality values could be significant rate increases and displacement of energy markets through the artificial inflation of the costs of certain fuels, particularly coal."

**ORIGIN OF THE PHRASE "ENVIRONMENTAL EXTERNALITIES"

In a January 15, 1991 article in PUBLIC UTILITIES FORTNIGHTLY, entitled "A Lighthouse in the Desert", Bruce W. Radford described the origin of the phrase:

Nineteenth century economists spoke about the "lighthouse effect". They claimed that private investor capital would never come forward to construct a lighthouse because the benefits of a lighthouse were largely indirect ("external") and accrued only to the society at large. The builder would assume all the cost without receiving much in the way of compensation. And so lighthouse building, fraught with economic externalities, was consigned to government.

Environmental cleanup costs are the modern examples of an economic externality. "But we don't trust the government to fix the problem. Instead, we rely on private industry to clean up its act, with a push and a shove from our legislators and regulators."

**ATTACHMENTS**

A. American Mining Congress material on "Adverse Impacts of Increased State Adoption of Environmental Externalities" (1992) and other materials relating to California's 1992 Electricity Report (ER 92).
   3. ELCON publication, "Profiles in Electricity Issues: Externalities".
8. State of New Mexico, House Joint Memorial re: California's decision to use environmental adders as part of its electricity bidding policy.

B. Articles from recent publications retrieved from NEXIS:

C. Congressional (Bills) and Federal (Federal Register) Material
4. 54 FR 50427 (December 6, 1989). Financial Assistance Award - Intent to renew grant with the National Association of Regulatory Utility Commissioners (NARUC).

D. State-Related Material: CALIFORNIA*
E. State-Related Material: ILLINOIS*

F. State Related Material: NEW YORK*

G. Other State Related Material
   2. COLORADO:


6. **MASSACHUSETTS**:


8. **OHIO**:
   a. Clean-Coal/Synfuels Letter, "AEP parries fuel with critics; utility pressed to scrub, use CCTs" (August 12, 1991).


11. **WASHINGTON**:

c. Electric Week, "Northwest Power Council's Inverted-Rate Proposal Strikes Some Sparks" (November 1, 1982).


*NOTE: At the time of this research, Public Utility Commission Opinions are available in LEXIS for the following states only:

1. California
2. Connecticut
3. Delaware
4. Florida
5. Illinois
6. Indiana
7. Louisiana
8. Maryland
9. Michigan
10. Minnesota
11. Missouri
12. New York
13. Ohio
14. Pennsylvania
15. Texas
16. Washington
17. Wisconsin