

Clean Power Plan Puts Financial Squeeze on Electric Co-Ops

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The carbon emissions reductions mandated by the Clean Power Plan may force many rural electric cooperatives to prematurely close their coal-fired power plants, creating a multibillion-dollar debt headache for the nonprofit electricity providers, as well as the federal agency that loaned them the cash to build and update those plants.

Rural co-ops, which came into existence largely thanks to the Rural Electrification Act of 1936, serve 42 million people in the U.S., frequently in high-poverty areas. Given the need for the cheapest electricity possible, the fuel mix for co-ops is skewed heavily toward coal — about 70 percent of the electricity generated by generation and transmission co-ops and 58 percent of the electricity sold by distribution co-ops, according to the National Rural Electric Cooperative Association, a trade group.

The U.S. Environmental Protection Agency's Clean Power Plan calls for existing power plants to slash their greenhouse gas emissions by 32 percent from 2005 levels by 2030. While compliance will be costly for all coal-heavy utilities, it could be especially costly for nonprofit, member-owned co-ops, advocates say.

Many coal-fired plants built by co-operatives were built in light of the now-repealed Powerplant and Industrial Fuel Use Act of 1978, which, in the wake of global oil and gas shortages, mandated that any new base load power plant had to be able to burn coal as an alternative.

"What will happen is some of the investor-owned utilities are making a business decision to close plants that are 50 years old," McCarter & English LLP partner Bob O'Neil said. "Is there a possibility that you'll have power plants of a more recent vintage be forced to close?"

If co-ops don't get any debt relief, their best chance of weathering the CPP's requirements will come through participating of cap-and-trade systems, observers say. The EPA made a trading system the centerpiece of its proposed federal CPP implementation plan for states that don't submit their own implementation plans, and a cap-and-trade system is seen by many as the most logical way for states to comply with the new regulations.

"It just makes a lot of sense," O'Neil said. "You want to get the plants that are the least efficient ones to retire, and when you use a cap-and trade approach, those who have the new units can stretch out their economic life."