

**THE IMPLICATIONS FOR COAL MARKETS
OF
UTILITY DEREGULATION AND RESTRUCTURING**

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PART 1
Executive Summary

Approach

The National Coal Council has been asked to consider the effects of possible changes in the electric utility industry on domestic coal markets in the next decade. To respond to this question, the Coal Policy Committee of the Council created a Working Group charged with evaluating the effect on coal markets of such changes as FERC's proposed mandatory access to the transmission systems by all wholesale electric customers, the possibility of deregulation of certain parts of the electricity market currently regulated, and the entry of new entities into the electricity supply sector. The possible changes to be considered are to be based on these and other regulatory/legislative events of the last decade.

The report of these considerations of the Council is divided into four parts:

- Part 1 *Executive Summary.*** Reviews the rationale for the report, describes the approach taken, summarizes the primary conclusions, and presents the Council's recommendations.
- Part 2 *History of Regulatory, Legislative, and Market Forces Affecting the Electric Utility Industry.*** Provides the background of the changes which have taken place since the dawn of the industry, relates these changes to the regulatory/legislative/market forces at work during the various periods, and highlights the forces currently affecting the industry.
- Part 3 *Implications for Utilities.*** Reviews the likely change in utility structures and operations resulting from the changes described in Part 2.
- Part 4 *Implications for Coal Markets.*** Lists the six primary implications for utility operations and evaluates their likely effect on coal use in both the short and long terms. Finally, the Council integrates its assessment of these six implications into overall directions for the coal markets.

Conclusion

The National Coal Council recognizes the high degree of uncertainty about the future of the electric utility sector and the even greater uncertainty about its effect on coal use by the electric industry. The

Council evaluated the direction of the impact on coal use in each of the following major implications for the industry:

1. Increased competition.
2. More customer choice.
3. Less protection by regulatory oversight.
4. Generation/transmission/distribution unbundling.
5. Decreased cost of alternative technologies.
6. Partnering.

After evaluation on domestic coal use (see Table 1), the National Coal Council believes the following:

1. In the short term (two to five years), there may be a significant increase in coal demand, stemming from higher utilization of existing facilities with access to low-cost coal but offset by the closing of older non-competitive plants.
2. Over the next five years, most of the increasing demand for electricity will be met by other fuels.
3. In the mid term (five to ten years for this analysis), and continuing into the longer term, there is a potential for coal use to grow if one or more of several events occur:
 - a) The price of alternate fuels, primarily natural gas, rises or is perceived as likely to rise very substantially relative to the price of coal.
 - b) New organizational partnering among coal suppliers, transporters, and users is developed to reduce coal's cost relative to other fuels.
 - c) Either existing or new coal technologies decline sharply in cost and in the time required to construct such projects.

The National Coal Council believes that these changes may affect the rate at which clean coal technologies are being developed. Increased competition among electric utilities will encourage a focus on reducing costs. It will also reduce their willingness to make capital investments in new technologies because regulatory protection of these investments through a guaranteed return is unlikely. Combined, these changes are likely to delay development and deployment of clean coal
