

BILL LOCKYER
TREASURER
STATE OF CALIFORNIA

July 8, 2008

Mr. Eric Solomon
Assistant Secretary for Tax Policy
Department of the Treasury
1500 Pennsylvania Ave, NW, Room 3120
Washington, DC 20220

RE: Use of tax-exempt financing for new coal power plants

Dear Mr. Solomon:

In response to increasing efforts to build new coal power plants by energy companies and utility cooperatives using tax-exempt financing, I am writing to express my concerns about the financial and environmental risks new coal-fired power plants pose for investors, taxpayers and ratepayers.

From an environmental standpoint, coal-fired power plants are among the worst CO₂ emitters and are responsible for 93 percent of the sulfur dioxide and 80 percent of the nitrogen oxide emissions generated by the electric utility industry. Coal emissions also cause urban smog, which has been linked to respiratory ailments. The projected amount of pollution to be emitted by the number of proposed plants will negate California's and other states' aggressive efforts to combat climate change.

In addition to the negative environmental impacts caused by coal-fired power plant emissions, the use of tax-exempt financing to develop and build new plants poses financial risks to investors and taxpayers. Rising coal and construction costs coupled with uncertainty about greenhouse gas regulation have prompted the USDA's Rural Utility Services to place a moratorium on loans for new coal plants through 2009.

The absence of a regulatory framework for greenhouse gas (GHG) emissions will certainly increase future maintenance and operation costs for coal power plants when GHG regulations are finally established. The added costs would put pressure on a project's obligation to pay investors and do not bode well for ratepayers as these costs would likely be passed on to them. Moreover, the true costs of building the new plants are not fully disclosed to the investors, ratepayers or taxpayers. Although there have been cancellations and postponements of proposed plants across the country, there are several projects that are still moving forward with tax-exempt support.

I believe that projects that use tax-exempt financing should result in significant net benefit to the public. Studies point to numerous long-term harmful effects of coal emissions to our health, and our environment, and regulatory uncertainty imperils the investment. The risks of coal-fired power plants merit a closer examination and timely action by the Treasury Department to avoid possible future losses by taxpayers.

Sincerely,



BILL LOCKYER
State Treasurer