

## *The Clean Air Act and Its Impact on Illinois*

*Peter F. Colwell and Michelle A. Mahue*

After nearly a year and a half of debate in both houses of Congress, President Bush signed the Clean Air Act on November 11, creating the nation's primary air pollution legislation. Although the Clean Air Act has been signed into law, the actual guidelines for Illinois utilities and other industries have yet to be established. The EPA, in conjunction with Illinois energy and environmental regulatory bodies, will negotiate the specific requirements and allowances.

Beginning January 1, 1995, users of high sulfur coal will face added emission restrictions. Even tougher requirements will take effect January 1, 2001, when the second phase of restrictions on sulfur dioxide is implemented. The restrictions force utilities to switch to lower sulfur coal or to install scrubbers. One concession Bush made to help assure the bills' passage was agreeing to provide training and income assistance to workers displaced by restrictions on high sulfur coal.

emissions are reduced through reburning in natural gas. While this method involves a higher cost per unit than with scrubbers, it is cost effective for smaller plants. Measures that allow continued use of high sulfur Illinois coal will help to minimize the Act's overall impact on the southern part of the state.

Compliance with the first phase of the Clean Air Act will cost IP between \$250 and \$550 million. Since the initial phase requires the most drastic adjustments, the second phase requirements should cost much less. Furthermore, if state and federal regulators grant favorable financing allowances, IP predicts rate increases resulting from the legislation to be no more than 10%. IP is currently negotiating with state and federal regulators for investment credits, pollution bonds, and federal grants to help fund equipment purchases and construction of scrubbers.

Favorable financing allowances are, of course, subsidies to utilities funded by taxpayers. Although their status has not been finalized, nearly all of these subsidies have been removed from the new legislation. If subsidies are unavailable, consumers must provide the cost differential in the form of higher rates.

Pollution credits, granted on a utility by utility basis, are also subject to possible regulation. Regulation will prove to be difficult, since it is common practice for utilities to buy and sell electricity. Interesting questions regarding such tradable credits are who will buy and what price will prevail. To promote efficient use of resources, society must recognize utilities' relative costs of compliance. Obviously, some utilities may comply more cheaply than others. Utilities facing higher compliance costs may consider purchasing credits. Clearly, such utilities would only purchase credits if doing so were cheaper than full compliance. ■

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### **Main Provisions**

In an effort to reduce vehicle pollution, the Act creates phased restrictions that require auto makers to install more efficient emission control systems. In cities with high smog levels, such as Chicago, restrictions will be placed on fuels that may be sold; only cleaner fuels, such as ethanol, may be available in such areas. Officials predict that Cook, DuPage, Lake, and portions of Will, McHenry, and Kane Counties will be affected. Regulations to control emission credit trading between counties have not yet been established. The restrictions will increase fuel and, consequently, commuting costs. Relative property values will shift in favor of more accessible parcels.

Another series of restrictions will be placed on industries located in cities that fail to meet the Act's ozone attainment standards. Firms emitting any of the 189 toxic substances identified in the Act must reduce emissions or face shut-downs. Further use of chlorofluorocarbons and other ozone-harming chemicals will be phased out. Because Chicago falls within the scope of these regulations as well, its industrial property values may be adversely affected.

### **Impact on Illinois**

The restrictions that will affect Illinois the most severely are those concerning sulfur dioxide emissions. Southern Illinois is the home to many high sulfur coal mines. Furthermore, many of the state's utilities and industries burn high sulfur coal. Although legislators bargained for extra pollution allowances, the restrictions imposed by the Act will still be difficult and costly for Illinois to attain.

### **An Example: Illinois Power**

Decatur-based Illinois Power, which provides electricity to many downstate areas, is the largest user of Illinois coal. The company has begun activities to comply with the federal guidelines while not deviating from its stated policy of utilizing coal from Illinois mines.

At its largest coal-burning plant, near Baldwin, IP will install scrubbers on two of the three generators to allow continued use of high sulfur coal; the third generator will switch to lower sulfur coal. Because scrubbers require additional structures to house chemical cleaning equipment, they are only cost effective for large plants. At Hennepin, IP has a test project for smaller scale facilities;