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

Dear Mr. Solomon:

The American Public Power Association (APPA) appreciates the opportunity to respond to a letter you recently received from William Thompson, Comptroller of the City of New York, regarding tax-exempt financing for coal-fired power plants. APPA is the national service organization representing the interests of the more than 2,000 state and locally-owned electric utilities collectively serving over 45 million Americans.

We strongly disagree with Mr. Thompson's characterizations of the assumptions, analyses, and activities of public power utilities in planning and constructing new coal-fired power plants. His letter has much more to do with advocacy for a certain perspective on the issue of global climate change than it does with federal policy on the use of tax-exempt financing.

As you know, public power utilities, as units of state and local government, use tax-exempt bonds to construct and improve the infrastructure necessary to provide electricity. Such infrastructure includes generation facilities as well as transmission and distribution lines. Continued access to tax-exempt bonds is critical for public power utilities to continue to provide such services in a cost-effective manner to their customers. As the demand for electricity continues to grow, new generation and transmission facilities will be increasingly important. The Energy Information Administration estimates electricity demand will increase 30% by 2030.

The municipal bond market has consistently been low-risk and reliable and remains so today. All three major credit rating agencies continue to say that the outlook for the public power sector is stable and its credit ratings are strong. For example, in October of 2007, Fitch said that its average public power system rating is "A" for utilities selling at wholesale and "A+" for those utilities providing retail service. Moreover, this strong performance stands in stark contrast to the difficulties faced in recent years by many investor-owned utilities and independent power producers.

APPA and its members understand that future climate change legislation could affect the cost of coal-fired electricity. In today's political climate, the uncertainty of federal regulation and cost will affect all sources of power. Nuclear, natural gas, hydropower, wind, solar and coal all have risks and uncertain costs associated with their use in electricity production. However, limitations on state and local governments' ability to fund power plants through tax-exempt financing would require other methods of raising revenues to offset increased financing costs, (increased property, sales, and other local taxes), and/or a reduction in essential services—an unacceptable option when that service is electricity.

Mr. Thompson cites the fact that the Rural Utilities Service (RUS) has suspended low-interest loans to rural electric cooperatives for coal-fired power plants. However, that is because RUS lacks a mechanism to reflect the risks associated with such plants. These risks for public power utilities, though, are already taken into account and determined by credit rating agencies. Thus, if a project was very high risk, a local government would have great difficulty securing financing. In addition, the very principles of local control – open meetings and decision-making, public disclosure of information, and accountability to locally elected officials – mitigate high-risk outcomes.

American Municipal Power (AMP)-Ohio, the entity mentioned in Mr. Thompson's letter, carefully considered the cost of potential CO_2 regulation as part of its planning and feasibility analysis for the coal-fired plant it is proposing. Fitch gave AMP-Ohio's project revenue bonds a rating of "A" in May 2008.

Public power utilities are not wedded to one source of energy, and, in fact, most rely on a diverse portfolio of resources. AMP-Ohio is a case in point. In addition to the coal-fired plant they are proposing, they are also investing in wind energy and additional hydropower. At the same time, in some areas of the nation coal is the most affordable and abundant option. Our members' first priority is serving their customers in a reliable and cost efficient manner.

Given all of the reasons cited above, we do not believe it is necessary for Treasury to conduct a review of the risks associated with tax-exempt bonds. We appreciate your help in the past on issues related to public power and we thank you for your time and attention to this matter.

Sincerely,

Mark Crisson
President & CEO

MC/AH/*ZFW*