REPORT OF THE

VIRGINIA COAL AND ENERGY COMMISSION

TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA

SENATE DOCUMENT NO. 58

COMMONWEALTH OF VIRGINIA
RICHMOND
1995

Members of the Commission

Frank W. Nolen, Chairman
J. Paul Councill, Jr., Vice Chairman
Charles J. Colgan
H. Russell Potts, Jr.
Jackson E. Reasor, Jr.
William C. Wampler, Jr.
Watkins M. Abbitt, Jr.
James F. Almand
George W. Grayson
Harry J. Parrish
Jackie T. Stump
A. Victor Thomas
John Watkins
John S. DiYorio
Jerry D. Duane
Kaye G. Green
W. Thomas Hudson
Marilyn A. Hutton
Everard Munsey
Richard A. Wolfe, Ph.D.

STAFF

DIVISION OF LEGISLATIVE SERVICES

Arlen K. Bolstad, Senior Attorney
Franklin D. Munyan, Staff Attorney
Nicole R. Beyer, Staff Attorney
Cynthia G. Liddy, Senior Operations Staff Assistant

SENATE OF VIRGINIA
Committee Clerk
Brian Bishop Taylor, Assistant Coordinator of Committee Operations

SUBCOMMITTEES

Coal Subcommittee

Jackson E. Reasor, Jr., Chairman
Jackie T. Stump
A. Victor Thomas
John S. DiYorio
W. Thomas Hudson
Richard A. Wolfe
William C. Wampler
Watkins M. Abbitt, Jr.

Energy Preparedness Subcommittee

James F. Almand, Chairman
Charles J. Colgan
Jackie T. Stump
Watkins M. Abbitt, Jr.
Jerry J. Duane
Everard Munsey

Oil and Gas Subcommittee

William C. Wampler, Chairman
Harry J. Parrish
W. Thomas Hudson
Marilyn A. Hutton

Renewable Energy Subcommittee

Charles J. Colgan, Chairman
H. Russell Potts, Jr.
John Watkins
George W. Grayson
Kaye G. Green

Table of Contents

Report of the
Virginia Coal and Energy Commission
To
The Governor and the
General Assembly of Virginia
Richmond, Virginia
1995

TO: The Honorable George F. Allen, Governor,
and
the General Assembly of Virginia

I. INTRODUCTION.

The Virginia Coal and Energy Commission is directed by its enabling legislation to study coal as an energy resource and to promote the development of renewable and alternative energy resources other than petroleum. Between the 1994 and 1995 Sessions of the General Assembly, the full Commission met three times: first in Abingdon, then in Blacksburg, and finally in Richmond. Noteworthy was the Commission's two day meeting in Blacksburg held in conjunction with the Annual Institute on Mining Health, Safety and Research sponsored by Virginia Tech.'s Department of Mining and Minerals Engineering.

The Commission's subcommittee's were also very active during this interval. The Coal Subcommittee met in Wytheville, Abingdon and Richmond at the Commission's direction to determine the extent of the coal industry's economic crisis and to develop legislative initiatives in aid of that industry. The Oil and Gas Subcommittee met to receive reports on Virginia's growing natural gas industry and to discuss proposed tax legislation affecting coalbed methane gas production. Finally, the Energy Preparedness Subcommittee convened to receive its annual briefing on the Commonwealth's energy and weatherization assistance programs, and to receive an update from the Department of Mines, Minerals and Energy on the Virginia Energy Plan, an initiative promoting energy efficiency, conservation and innovation within state government.

The Commission convened a final meeting in January 1995 to receive the subcommittee reports and recommendations. At that meeting, the Commission endorsed a coal industry tax credit proposal (proposed by the Coal Subcommittee), an initiative aimed at stimulating coal production and sales within the domestic and export markets. The Commission directed the Coal Subcommittee to work with coal industry representatives to finalize the details of legislation introduced in the 1995 General Assembly Session. The Commission further recommended that the subcommittee continue its examination of the coal industry's economic problems as part of the Commission's work in 1995.

Acting on the Oil and Gas Subcommittee's recommendation, the Commission voted to recommend that the Department of Mines, Minerals and Energy be authorized by statute to certify as eligible for sales and use tax exemptions, pollution control equipment used for coal, oil and gas production. In conjunction with the Energy Preparedness Subcommittee's continuing oversight of energy and weatherization assistance programs, the Commission recommended that to the extent permitted by federal law, a percentage of the federal grant dollars currently spent on fuel assistance for low-income families within the Commonwealth be redirected to weatherization assistance for this same income group.

Finally, the Commission communicated with Virginia's Congressional Delegation urging its members to oppose proposed increases in the federal Vessel Tonnage Tax. The Commission concluded that this tax increase would further weaken Virginia coal exports. Correspondence received in return indicated that although the measure had been passed by the House of Representatives as part of a larger measure, the bill had stalled in the Senate.

II. AIDING THE VIRGINIA COAL INDUSTRY.

A. OVERVIEW

The Virginia Coal and Energy Commission met in Abingdon on June 21 to examine declining Virginia coal exports, and to determine whether the Commission could provide any assistance in addressing a problem currently costing Southwest Virginia's economy millions of dollars. Testimony from coal industry officials revealed that the problem's primary source is the downward spiral in international coal prices. Fierce competition in the overseas market from lower-cost foreign competitors--principally Australia--coupled with technological advances and declining coal consumption world-wide have caused prices to drop precipitously. Few Virginia coal companies can effectively compete for international coal sales at current prices, the Commission was told.

Since 1982 the market price for metallurgical coal (met coal) has dropped $20.85, with nearly one-third of that reduction occurring within the past three years. As a consequence, since 1990 over one thousand mining production jobs were eliminated; at the same time, coal production tonnage skidded from nearly 47 million tons in 1990 to just over 40 million in 1993. The export of Virginia metallurgical coal is critical to the Commonwealth's coal industry. According to the

Virginia Center for Coal and Energy Research, in 1992 nearly 40 percent of Virginia-mined coal was sold in the international export market, and nearly 80 percent of that tonnage was metallurgical grade.

B. THE INDUSTRY VIEW

Vaughn Groves, Assistant General Counsel to the Pittston Company, told the Commission that the steep drop in international market prices for metallurgical coal has resulted in five Pittston mine closings within the past nine months. (See *Appendix A*). Pittston estimates that these closings will result in nearly $40 million in economic losses to Dickenson, Tazewell, and Wise Counties. The 478 jobs lost through the shutdowns, and the $18.5 million in annual wages associated with these jobs, figure heavily in the regional economic impact. Groves also stated that Virginia's railroad companies will lose out on an estimated $30 million in annual transportation revenue associated with the five mines' previous production output.

Competition from low-cost producers, such as Australia, is the primary cause of a slump in demand for Virginia metallurgical coal. Australia's proximity to Japan has provided its coal industry a tremendous advantage in coal sales to Japan, the world's number one coal export market. Australia's shipping costs to Japan are substantially lower than those incurred by producers in the U.S., Canada and the former Soviet Union. Australian producers have also invested heavily in high-technology mining equipment, thereby lowering labor costs, and the Australian government has contributed to this industry's competitiveness by eliminating export taxes on coal and by permitting its currency to decline relative to the U.S. dollar.

According to the U.S. Department of Energy, by the year 2000--despite expected declines in overall coal consumption--Australia will increase its production and market share, selling more tonnage in the international market than the U.S., Canada, the former Soviet Union and all other exporters combined. U.S. sales are expected to continue their slide from a high of 63 million tons in 1990 to 40 million tons by the year 2000. The 20 million ton drop from 1991 to 1993 in coal export shipments from Hampton Roads supports these projections.

The net effect is a Virginia met coal industry reeling from low price levels in the critical international market. Groves told the Commission that Pittston's remaining 6 deep mines and coal processing plants were operated at a $6 million P&L loss in 1993. These Pittston facilities provide nearly 700 jobs paying $28 million in annual wages, and they also account for over $2.5 million in county severance taxes. Noting that Virginia's steam coal industry enjoys the assistance of a $3 per-ton state tax credit provided Virginia's electrical utilities purchasing Virginia steam coal, Groves suggested that reciprocal legislation for the met coal industry--possibly providing tonnage-based credits to railroads transporting Virginia coal to the ports--could provide a vital boost to Virginia's met coal industry.

Stephen G. Young, Vice President for Government Affairs at Consol Coal Group, said that Consol is struggling to keep its Virginia mines open five days a week while working to find buyers for its coal around the world. It remains one of the largest exporters of coal, and sends Virginia coal to 21 countries. Developing a solution to the woes of Virginia's coal companies will be complicated by several factors:

- The increasing use of electric ovens in steel production is reducing the demand for coke, which, in turn, reduces the worldwide demand for met coal;

- While Virginia's coal production has declined in recent years, national production has jumped to record levels as the result of increased production from Wyoming and other western states; and

- Restrictions on nitrous oxide (NOx) under consideration by the Northeast Transportation Commission could hurt the market for Virginia's steam coal by making its use by electrical utilities too expensive.

Mr. Young endorsed market-based solutions where supply and demand play bigger roles. He noted that increasing the subsidy for the use of Virginia coal in power plants could result in the closing of out-of-state coal mines located closer to a Virginia power plant than any Virginia mine. Approximately 25 percent of the ten million tons of coal burned in Virginia's power plants is mined in the Commonwealth, notwithstanding the existing tax credit of three dollars per ton on Virginia coal burned by electric utilities. A larger utility tax credit was suggested as one way to help encourage sales of Virginia steam coal by offsetting the cheaper transportation and production costs associated with West Virginia coal.

J. Steven Griles of The United Company and Stuart Smith of Amvest Corporation emphasized that the problems in the coal industry are not limited to those firms exporting met coal. United does not export coal, yet has had to reduce the number of its employees and contractors by over 50 percent in the last five years. Related supply businesses have also suffered as the industry declines.

Griles noted that while transportation costs are an issue, tax credits for railroads hauling coal (suggested by Groves from Pittston) will not help all producers. Further complicating the picture is the fact that rebates are currently being provided by railroads to some companies. Mr. Smith asked that any solution focus on the cost of production.

Mr. Griles alerted the Commission to the threat to coal exports posed by pending federal legislation increasing the vessel tonnage tax. The measure would raise the cost of a ton of coal by approximately 15 cents. The purpose of the tax increase was to subsidize the conversion of shipyards from military to commercial vessel construction. Though the goal was laudable, the coal industry was concerned that bulk shippers would be put at a competitive disadvantage with foreign rivals in the international coal export market.

C. Analysis by the Virginia Center for Coal and Energy Research

Dr. John Randolph, Director of the Virginia Center for Coal and Energy Research, briefed the Commission on the current state of the Virginia coal industry (See *Appendix B*). He confirmed the price declines in the metallurgical market, but noted that contract prices for steam coal (coal used in electricity generation) had recently moved slightly higher in 1994. Utilities replenished coal stocks depleted by high levels of electricity usage during the 1993-1994 Winter and the Summer months of 1994. Steam coal purchases, an encouraging aspect of the Virginia coal market, rose 3 percent in 1992, another 8 percent in 1993 and were up by 11 percent in the first quarter of 1994.

Randolph projected growth in demand for Virginia's low-sulphur coal in the steam coal market as the 1990 Clean Air Act Amendments are phased in and utilities must choose between purchasing expensive equipment to scrub the emissions of lower-cost, high sulphur coal, or purchasing higher-cost, low-sulphur coal requiring little or no expensive scrubbing. The demand for steam coal in the international market is also projected to rise during the next decade and beyond, while demand for met coal is expected to level off and then decline slightly during the same period.

Commission members were encouraged by the long-term projections for the steam coal market, but expressed considerable concern about the impact of current international met coal prices on the coalfields' economic base. The Commission directed its coal subcommittee to work with coal industry representatives to develop legislation enhancing the competitiveness of Virginia coal in the current market.

D. Coal Subcommittee Work

At the Commission's directive, the Coal Subcommittee convened three meetings to focus on Southwest Virginia's declining coal industry. The Subcommittee was briefed on a survey and analysis of Virginia's coal industry conducted by an independent energy consultant. A $57 million tax credit package designed to stimulate Virginia coal production and employment was reviewed and endorsed by the subcommittee. And, the subcommittee also examined the use of coal at state facilities, and reviewed information about state agencies switching from coal to other fuels in their heating plants.

Independent study of the coal industry.

Energy Ventures Analysis, Inc., an Arlington-based energy consultant conducted a comprehensive survey of the Virginia coal industry for the Virginia Coal Association, a trade association representing Virginia's largest coal mine operators. Mine operators supplied detailed production, sales and other economic data to Energy Ventures during the survey. Energy Ventures also examined incentives other states have furnished their native coal industries.

W. Thomas Hudson, President of the Virginia Coal Association and a subcommittee member, presented Energy Ventures' findings to the subcommittee. The Virginia coal industry has suffered decreased production, closed mines, and increased layoffs over the past few years. Federal Mine Health and Safety Administration (MHSA) mine statistics show that Virginia coal production has dropped from 46 million tons in 1990 to a projected 38 million tons in 1993--a decline of 16 percent in just four years. This has had a dramatic effect on mining employment.

The number of man-hours worked in Virginia's mining industry plummeted from 20,993,000 in 1990 to 16,497,000 in 1993. These figures represent a drop in full-time mining employment from 10, 497 full-time employees in 1990 to 8,249 in 1993. If these production and employment trends persist, the Virginia Center for Coal and Energy Research estimates that by the year 2005, Virginia's annual coal production will be under 29 million tons, and mining employment will be down to 5,000 employees.

Energy Ventures' survey showed that since January 1, 1994, survey respondents closed 23 mines, laid off 796 workers and expected to close three more mines and two coal preparation plants by the end of 1994. One hundred sixty-three mine workers were expected to be laid off as a result. Adding to this pessimistic picture: the announcement by a major Virginia mine operator that it had filed a petition in federal bankruptcy court seeking reorganization under Chapter 11 of the bankruptcy laws.

Unemployment statistics obtained from the Virginia Employment Commission confirm the coal industry woes. From January 1994 through September 1994, over 1,600 Virginia mine workers filed first-time claims for unemployment compensation benefits. During that same period, over $2.8 million in unemployment benefits were paid to these workers, averaging over $300,000 per month. Using an economic multiplier model developed by the Virginia Center for Coal and Energy Research, the loss of these 1,600 jobs translated into an additional loss of (i) 149 railroad jobs, (ii) coal income loss of over $38 million and (iii) railroad income loss of over $12 million.

Additionally, Southwest Virginia localities will lose $2.6 million in severance taxes because of the production slump, and the state will lose $2.7 million in personal income taxes and $2 million in state sales taxes. The state will also lose $1.6 million in unemployment taxes. This results in a projected total state and local revenue loss of approximately $10 million.

Virginia coal sales slumping.

Energy Ventures also projects that utility purchases, Canadian purchases and overseas sales will continue to trend downward. Ironically, this will occur as the 1990 Clean Air Act Amendment's implementation will likely prompt some utilities to switch from high-sulphur coal to cleaner coal from Central Appalachia. However, Virginia's current production is out of synch with this emerging market: Virginia's coal production is 70 percent metallurgical coal, and 30 percent steam.

Long-term prospects for Virginia's steam coal industry hang in the balance, too. Important steam coal contracts between Virginia steam coal producers and utilities (representing 6 million tons in annual sales) will be expiring within the next three years. According to Hudson, it is likely that many of these contracts--most of which are priced above current market price--will not be renewed. These contracts will be picked up by mine operators from other states with lower production costs.

Virginia mine executives told the subcommittee that competition from lower-cost sources in West Virginia has also reduced demand for Virginia coal. In some instances West Virginia operations are producing coal at prices Virginia producers cannot compete with--up to fifty percent less at point of shipment, in one case. West Virginia's production-cost advantage stems from its extensive surface reserves, which can be mined at considerably less expense than deep-mine coal.

Much of Virginia's remaining reserves are in deep mines. Only 3 percent of Virginia's reserves are recoverable surface mine reserves--a reserve base currently responsible for over 18 percent of current production, and one that is expected to be exhausted by the year 2000. One principal cause of high extraction costs in Virginia's deep mines is narrow coal seams. This frequently results in less coal mined per production ton. According to one estimate, Virginia's average recovery rate (percent of coal per production ton) is less than 65 percent while West Virginia and Kentucky mines average over 75 percent.

Other states' incentives to promote sale of native coal.

Other coal-producing states have enacted legislation promoting the production and sale of native coal. Some of the recent legislation is specifically related to the implementation of the 1990 Clean Air Act amendments' requirements for reduced emissions by electrical utilities' power plants (see chart attached as *Appendix C*). In Kentucky, for example, legislation was passed permitting utilities to pass through the capital and operating cost of scrubbers without the formality of a general rate case.

Ohio passed similar legislation authorizing its public service commission permit utilities to collect surcharges from its customers to defray the expense of installing scrubbers. Illinois' legislature passed legislation mandating scrubbing at designated Illinois Power and Commonwealth Edison generation facilities. Declared unconstitutional by a federal district court, the law is now before the 7th Circuit Court of Appeals for further review.

In Virginia, current coal incentives include a $3 per ton gross receipts tax credit given Virginia public utilities for each ton of Virginia steam coal purchased. That tax credit was phased in beginning in 1987 and is slated to expire in the year 2000. Additionally a $2 per ton state income tax credit is provided to cogenerators selling power to a public utility in Virginia; it will continue through 1996.

An additional incentive is contained in Virginia's Public Procurement Act. The Act establishes a preference for Virginia-mined coal in state fuel purchases contracts. State agencies and institutions are authorized to purchase Virginia coal at prices up to four percent above the lowest responsible bid for coal mined elsewhere. According to information from the Department of General Services, over 8,000 tons of "preference coal" were purchased by state facilities in fiscal year 1993-1994. The Department projects that the same amount will be purchased in fiscal year 1994-1995.

New Virginia coal incentives proposed.

The Virginia Coal Association proposed to the subcommittee a new $57 million tax credit package to help stabilize Virginia coal production and employment at their current levels. Outlining the program for the subcommittee at its meeting in Abingdon, Association President W. Thomas Hudson. The package targeted overseas metallurgical sales and domestic steam coal sales.

The tax credit package promoted overseas sales through a $2 per ton tax credit for export coal. Additionally, the tax credit currently provided Virginia electrical cogenerators using Virginia-mined steam coal would increase from $2 to $3 per ton; the corresponding credit for utilities would remain unchanged at $3 per ton. Coal sold to purchasers in the export market would generate a $2 per ton tax credit. And, each ton of coal from surface mines would produce a $.40 per ton credit. Finally, coalbed methane gas producers would receive a $.05 per MCF (million cubit feet) tax credit.

Hudson noted that the thin seams in Virginia's deep mines make Virginia's coal less competitive in the domestic and international markets. To compensate for that disadvantage, a tax credit schedule linked to seam thickness was included in the proposal. Under the proposal, coal mined from a seam with a thickness of 28 inches or less would generate a $4.20 per ton tax credit. The tax credit would be reduced in proportion to wider seam thickness; a seam of 42 inches or wider, for example, would create a $.40 per ton credit. The proposal would not permit any doubling up of credits, e.g., a ton of coal could not qualify for both seam thickness and export credits.

The coal incentives currently in place (mainly the utility/cogenerator tax credits) generate approximately $12-14 million annually in credits against Virginia taxes. Hudson estimates that the proposed tax credit package would creates approximately $57 million new tax credits. However, he emphasized, if nothing is done over 4000 mine employees will probably lose their jobs over the next five years as annual production tonnage plummets to 30 million tons. If this occurs, the Virginia Center for Coal and Energy Research estimates that Virginia will lose approximately $20 million annually in sales, income, unemployment, property, corporate, and severance taxes.

III. OTHER COAL ISSUES

A. VESSEL TONNAGE TAX

The Commission was alerted (at its Abingdon and Blacksburg meetings) to proposed federal legislation increasing the vessel tonnage tax. The measures would reportedly raise the cost of producing and exporting a ton of coal by approximately 15 cents--a significant amount in the thin-margined coal export market. The purpose of the tax increase was subsidizing the conversion of the nation's shipyards from the production of military vessels to commercial vessels.

The Commission, cognizant of the Commonwealth's own shipyards, found the goals laudable as a general matter. However, Commission members noted that such a significant tax on the Commonwealth's coal exports would further harm Virginia's declining coal industry. Consequently, the Commission urged Virginia's congressional delegation to support Virginia's coal industry by opposing increases in the vessel tonnage tax. Correspondence from the Commission chairman to the delegation is attached as *Appendix D*. Responses from the delegation members indicating that the legislation had stalled in the Senate are attached as *Appendix. E.*

B. Clean Coal Technology Projects

The Virginia Center for Coal and Minerals Processing (CCMP) at Virginia Tech. briefed the Commission on CCMP's role in the development and commercialization of technology reducing emissions associated with burning coal for electrical power production. Its current staff of 34, including Va. Tech. faculty members, researchers, technical staff, and graduate students, is developing and commercializing methods of removing minerals (principally pyrite) in coal causing the release of sulphur dioxide, or SO_2. CCMP's work is directly related to the federal Department of Energy's Clean Coal Technology Program (CCT) associated with the federal Clean Air Act. 1990 amendments to the Clean Air Act mandated increased reductions in SO_2 and other emissions by coal-fired electrical power plants.

According to CCMP's Director, Dr. Roe-Hoan Yoon, CCMP's work is one component of the $7 billion federal CCT program. Approximately one-third of the funding is federal, with the balance provided by industry. Since the program began in 1986, approximately 45 major demonstration projects have been funded. The CCT projects have focused on (i) low-emission boilers systems (ii) high-efficiency power systems (iii) advanced coal-preparation techniques and (iv) a systems approach combining all three.

A highly successful technology developed by CCMP employs micro-bubbles in a water column to separate finely-ground coal from pyrite, a mineral that releases sulphur when burned. A working prototype of the micro-bubble column, marketed as a "Microcel," was demonstrated to the Commission at CCMP's Plantation Road testing facility in Blacksburg. The Microcel has been patented with the assistance of Virginia's Center for Innovative Technology, and successfully commercialized with installations completed in regional coal processing facilities. Several Microcel installations are pending at sites in the U.S. and overseas.

Recent CCMP coal preparation research included a $1.4 million DOE-funded project aimed at developing a cost-efficient means of dewatering, or removing moisture from finely-ground coal. Fine coal is more easily cleaned (as demonstrated in micro-bubble technology), however moisture content increases in that process resulting in less efficient burning characteristics. Mechanical dewatering is inefficient and thermal drying too costly. CCMP has filed a patent application for a thermodynamically favorable dewatering process that, according to Dr. Yoon, could revolutionize the coal industry.

C. VIRGINIA CEED

The Virginia coal industry's future depends on coal remaining a viable option for electric power production and in other industrial applications. Ensuring that coal receives appropriate consideration as an energy option is the task of the Center for Energy and Economic Development (CEED), a national non-profit organization dedicated to educating people about the benefits of coal.

John Paul, Vice President of the Southern Region of CEED, briefed the Commission and the Coal Subcommittee on CEED's mission and provided extensive information about ongoing research comparing the benefits of coal with natural gas, oil and other fuels. Joseph Vipperman of Appalachian Power Company is Virginia CEED's president. Members of Virginia CEED include the two largest electrical utility companies, both major coal-hauling rail companies, and all three coal associations.

D. USE OF COAL IN STATE FACILITIES

Virginia state facilities have historically used coal as their heating plants' primary fuel. However, some agencies are now converting from coal to fuel oil or natural gas. Moreover, several new state facilities on the drawing boards will be constructed with heating plants fueled by natural gas or oil. (See *Appendix F*)

According to Dr. Carl Zipper from the Virginia Center for Coal and Energy Research, fuel-switching by state agencies may be attributable to a number of causes including agency efforts to reduce employment levels. A coal-fired boiler system generally requires more labor to operate than one fueled by natural gas or fuel oil. Additionally, the capital or construction costs of a coal-fired plant are generally higher than those associated with fuel oil or natural gas. Some of the capital costs associated with coal-fired plants include coal storage facilities, disposing of combustion particulate (coal ash), and reducing gaseous emissions. However, he noted, over the life of a typical facility's heating plant, the costs of a coal-fired plant may be measurably lower than a plant using other fuels.

William Viar, a Department of General Services engineer, told the Subcommittee that coal has been the fuel of choice for Virginia state facilities for many years. At present, state agencies obtaining coal through the Department's Division of Purchase and Supply consume about 60,00 tons of coal per year. The University of Virginia and Virginia Tech. consume an additional 40-50 thousand tons per year.

Viar supplied information to the subcommittee (See *Appendix G*) showing that at least two state facilities are converting their heating plants from coal to number two fuel oil. And, four facilities' plants are being converted from coal to natural gas. The subcommittee also learned that the Department of Correction's Red Onion Mountain maximum security prison to be constructed in Southwest Virginia includes a natural gas-fired heating plant in its current design.

The subcommittee requested that its chairman correspond with the Director of the Department of Corrections expressing concern about the Red Onion Prison's fuel choice since the facility will be constructed in the heart of Virginia's coal region. A copy of the letter to the Department of Correction's Director is attached as *Appendix H*. The Director's response providing the Department's rationale for choosing natural gas is attached as *Appendix I*.

IV. OIL AND GAS ISSUES

A. NATURAL GAS PRODUCTION AND EXPLORATION TRENDS.

The Oil and Gas Subcommittee met to receive reports on natural gas exploration and production in Virginia.

Recent production figures presented to the subcommittee (See *Appendix J*) show that commercial natural gas production is a bright spot in Virginia's energy production picture. Overall production increased from 24.7 BCF (billion cubit feet) in 1992 to 37 BCF in 1993. Leading the way was a tripling of coalbed methane (CBM) production. CBM output leaped from 6 BCF in 1992 to 19.9 BCF in 1993, making CBM the majority of natural gas produced that year.

Production statistics for the first six months of 1994 (*Appendix K*) showed a production pace substantially ahead of the same period in 1993. Over 22,000,000 MCF (million cubic feet) of conventional and coalbed methane gas was produced in this six-month period in contrast to slightly under 15,000,000 MCF one year earlier.

B. Thomas Fulmer, Director of the Division of Gas and Oil at the Department of Mines, Minerals and Energy (DMME), told the subcommittee that four Southwest Virginia counties--Buchanan, Dickenson, Russell and Wise--are the leading natural gas production sites in the Commonwealth. Buchanan leads all CBM production with 305 wells and 15,311, 404 MCF (million cubit feet) production in 1993. Dickenson County produced the most conventional natural gas in 1993 with 423 wells producing 7,609,699 MCF.

DMME projected additional increases in natural gas production in 1994, particularly in the area of coalbed methane gas. A DMME survey of Virginia natural gas operators indicated that in excess of 160 well permits would be sought in 1994, and that over 50 pipeline permits will be sought as well. Over 152 wells were drilled in 1993 (including 86 CBM wells), and over 100 miles of gathering pipeline constructed. By the end of 1993, over 1,500 miles of gathering pipeline had been permitted in the Commonwealth.

Conventional gas and CBM production methods.

Brint Camp of Equitable Resources Exploration (EREX), a major natural gas developer in Southwest Virginia told the Subcommittee that until 1988, most of the gas produced in Virginia was conventional natural gas coming out of sandstone, limestone, shales and other conventional formations. These are tight formations with low permeability that must be stimulated with a pressurized combination of water, nitrogen, a type of soap and sand. The typical conventional well is 5,000 feet deep and the cost of drilling such a well is approximately $250-300 thousand. EREX has approximately 850 operational wells in Southwest Virginia. (See *Appendix L*)

Coalbed methane (CBM) wells are typically 2,500 feet deep. CBM gas is found as gas molecules on the face of fractures within coal seams, held in place by fluid under pressure within the fractures. Releasing the fluid releases the CBM gas which then migrates to the well bore. The formations containing CBM gas are stimulated using virtually the same methods used for conventional gas.

CBM gas released must be "dewatered" to remove the brine accompanying the gas through the well bore. The brine removed is then injected into underground disposal wells. EREX is injecting the brine liquids back into the formations of depleted CBM wells. Permits for injection wells are issued by the U.S. Environmental Protection Agency. The life expectancy of a conventional well can be as long as 40 years and EREX is hopeful that CBM wells will have similar longevity.

Virginia's natural gas resources and economic development.

According to Mike Edwards, President of Virginia Natural Gas, Virginia's current tax and regulatory framework lends stability to the development of natural gas. Moreover, Edwards told the subcommittee, establishing natural gas service in communities within gas-rich Southwest Virginia is an excellent business recruitment tool. Communities in Southwest Virginia have supported this idea in the issuance of tax-free industrial development bonds to help finance the installation of natural gas service.

Natural gas in most industrial processes, Edwards said, is the fuel of choice with significant cost, performance and environmental advantages over other fuel alternatives. Consequently, adding natural gas service to communities' infrastructure can be extremely advantageous. Several of Virginia Natural Gas's current projects incl e stablishing several gas storage facilities to ensure adequate peak-period capacity--important to ensuring adequate service. One planned facility in Saltville, for example, will be capable of storing over 200,000 decatherms of gas. It will require an estimated $100 million to complete these projects.

EREX's Brint Camp told the subcommittee that EREX is encouraging the use of natural gas by prospective commercial and institutional customers. EREX has expressed interest in providing gas to the Department of Correction's Red Onion Mountain facility scheduled for construction in Wise County. Camp also reported discussions with a substantial industrial concern expressing interest in locating a facility in Virginia City. A key attraction for an industrial customer is a noninterruptible supply of natural gas from a local source.

The gas industry reportedly invested $30-35 million in capital in the Commonwealth in 1993, and has increased its production by 150 percent in the past three years. Elizabeth McClanahan, counsel to the Virginia Oil and Gas Association, told the subcommittee that the gas industry increased its sales by $28 million in 1993 alone.

McClanahan noted that for areas not served by a local natural gas distribution company, Virginia Code § 56-265.1 exempts from regulation as public utilities those natural gas providers providing service to 10 or fewer commercial or industrial customers. This exemption, she said, can be very beneficial in attracting economic development prospects to Southwest Virginia.

Tax Exemption for gas production materials and equipment.

The 1994 Session of the Virginia General Assembly enacted legislation granting oil and gas producers an exemption from the Virginia Retail Sales and Use Tax for materials and equipment used directly in the exploration, production and processing of natural gas (amending Va. Code § 58.1-609.3). The Department of Taxation (Taxation) did not, however, grant an exemption for pit/pond liners and brine storage tanks. Taxation referred the taxpayer requesting the exemption to the Department of Environmental Quality (DEQ) to obtain a certification that these items are pollution control equipment under Va. Code § 58.1-3660. DEQ declined to certify the equipment, asserting that it lacked jurisdiction to do so.

The subcommittee was asked to review this matter and to consider recommending to the full Commission legislation clarifying this jurisdictional impasse. A. George Mason, President of the Virginia Oil and Gas Association (VOGA), suggested that legislation was probably appropriate since an opinion of the Attorney General concerning DEQ's jurisdiction had failed to resolve the issue.

The subcommittee coordinated the preparation of legislation stipulating that the Department of Mines, Minerals and Energy (DMME) is a state certifying authority for coal, oil and gas production. The subcommittee report to the full Commission recommended the bill's passage.

V. ENERGY PREPAREDNESS SUBCOMMITTEE

The Energy Preparedness Subcommittee met and heard reports on the Virginia Energy Plan, the Low Income Home Energy Assistance Program (LIHEAP), and the Weatherization Assistance Program (WAP).

Virginia Energy Plan

O. Gene Dishner, Director of the Department of Mines, Minerals and Energy, provided an update to the subcommittee on DMME's continuing efforts to implement the Virginia Energy Plan. He noted that in Executive Order Number 27 of 1994 (See *Appendix M*) Governor Allen directed state agencies to continue implementing the Plan (which was due to expire June 30,1994) for another year. During this time, the Plan will be evaluated by the Secretary of Commerce and Trade.

As examples of accomplishments under the Plan, Mr. Dishner noted annual savings by state agencies of $750,000 due to electrical rate adjustments and $100,000 due to steam system upgrades. Institutional Conservation Program Grants have been used to create annual savings of $550,000. Other Plan programs include Alternative Fueled Vehicle Grants (which have funded alternative fueled school bus programs in Northern Virginia), agency solar power demonstration projects (such as the use of solar water heaters), transit fare discounts, and the creation and implementation of state agency energy management plans. In addition, 71 state agencies are implementing energy accounting systems. Of those, 45 are currently operational.

Mr. Dishner also pointed to several 1994 General Assembly actions that benefit state agency energy projects implemented pursuant to the Plan. One example is that moneys spent on energy efficiency projects are now considered to constitute operating costs rather than capital expenditures. The 1994 General Assembly also approved the use of two alternative financing mechanisms for agency energy projects. Master lease contracting allows the Virginia Department of the Treasury to lend money to agencies for energy projects, and agencies to pay the Department back with energy cost savings. An agency step-by- step guide has recently been developed for master lease contracting. Performance contracting allows agencies to contract with private energy service companies for the design of energy improvements. The contracts provide that the companies are paid only if energy savings are in fact generated by the improvements. Emphasis has thus far been placed on implementing the master lease contracting program. Mr. Dishner reported, however, that a significant number of energy service companies have expressed interest in performance contracting.

Facility Energy Efficiency Grants, provided by the 1993 General Assembly, have been used for: EPA's Green Lights program, 15 agency light upgrades (which have resulted in 350,000 in annual savings), 12 agency energy surveys (which have resulted in 10 agencies applying for second phase grants), and 4 agency motor improvement projects. DMME has written guides to be used for the Photovoltaic Manufacturing Incentive Grants, and is pursuing new leads in its efforts to encourage eligible companies to locate plants in Virginia. An Alternative Fueled Vehicle Task Force has been studying the most efficient ways to meet state fleet mandates of the Energy Policy Act of 1992 and the 1990 Clean Air Act. Mr. Dishner noted that it is difficult to formulate programs that will address differing goals and requirements of the two statutes. The Energy Policy Act is designed to reduce dependence on foreign oil, while the Clean Air Act is designed to reduce the pollution caused by vehicle emissions.

Mr. Dishner also summarized funding allocations to DMME's Division of Energy. For 1994-1995, the Division received $228,000 in general funds, $450,000 in oil overcharge funds and $770,00 in federal grant funds. For 1995-1996, the Division will receive $38,362 in general funds, $450,000 in oil overcharge funds and $500,000 in federal grant funds. After that year, Mr. Dishner expects that the oil overcharge funds will no longer be available.

LIHEAP

Cathy N. Olivis, Programs Specialist, Department of Social Services, provided an update on the Low Income Home Energy Assistance Program (LIHEAP). LIHEAP is a three-component program that is administered by the Department of Social Services through local social services departments. The Program provided over $ 26 million in assistance during fiscal year 1994. Of that amount, $22.3 million was provided as fuel assistance to 320,162 persons in 124,568 households. The Fuel Assistance Program component of LIHEAP helps eligible households to pay for residential heating costs. Annual incomes of less than $6000 were reported by 44% of fuel assistance eligible households.

The Crisis Assistance Program component of LIHEAP furnished $3.2 million to 52,142 persons in 17,881 households with energy related, weather related, or supply shortage emergencies that could not be met by the Fuel Assistance Program or other local sources. Services provided by the Crisis Assistance Program included equipment purchase and repair and payment for fuel, electricity, and security deposits. Annual incomes of less than $6000 were reported by 20.3 % of eligible households. Several utilities cooperated with the Program by waiving security deposits for crisis assistance clients. The Program was then asked to pay the security deposit or amount due, whichever was less, only after the households' energy payments were 90 days late. Ms. Olivis reported that several additional utilities have agreed to this arrangement for the upcoming year. The third component of LIHEAP, the Cooling Assistance Program, provided $563,085 in fiscal year 1994.

Due to a reduction in the federal grant money that supports LIHEAP, it is estimated that in fiscal year 1995 only $21.2 million will be provided through the Fuel Assistance Program and $1.9 million will be provided through the Crisis Assistance Program. The Cooling Assistance Program will be eliminated. These estimates represent a .04% reduction in fuel dollars and a 60% reduction in crisis dollars. The number of households served by the Fuel Assistance Program is expected to remain the same. The Crisis Assistance Program will no longer pay for secondary electricity, for primary fuel in certain situations, or for security deposits for other than the primary fuel type. Ms. Olivis said that LIHEAP would be requesting legislation in 1995 to reassign unclaimed security deposits and utility refunds from the State Literary Fund to LIHEAP. A summary of Ms. Olivis' report is attached as *Appendix N*.

Weatherization Assistance Program

William T. Beachy, Jr., Program Administrator, Department of Housing and Community Development presented an update on the Weatherization Assistance Program (WAP). (See *Appendix O*). According to the 1990 census and the U.S. Department of Energy, 293,824 Virginia households were eligible for weatherization assistance between 1981 and June 1994. Of those eligible, 71,245, or 24%, have been served. Between July 1993 and June 1994, 1,973 dwellings were weatherized, 374,725 million BTUs were saved, $228, 868 were saved, there was a carbon reduction of 1,341 tons, and between 95 and 175 job years were generated.

Both Mr. Beachy and Ms. Olivis praised the increased cooperation now taking place between LIHEAP and WAP. The involvement of weatherizing professionals in responding to crisis calls has added a quality control element to the Crisis Assistance Program because the most efficient type of assistance was chosen for each household. When weatherization can avoid a fuel crisis, it is also provided (or, at least, the household is put on the weatherization waiting list). An indication that this coordinated effort has been effective is that only 4.5% of the requests for crisis assistance in the first part of November were from households that received assistance last year.

Billy Weitzenfeld, President of the Association of Energy Conservation Professionals, also commented favorably upon the increasing coordination between the WAP and LIHEAP programs. He stated that the new arrangement both benefits his industry and better utilizes public funding.

VI. COMMISSION ACTION AND RECOMMENDATIONS.

The Commission held its final meeting prior to the 1995 General Assembly Session on January 10 in Richmond. The chairmen of the Coal, Oil & Gas and Energy Preparedness Subcommittees presented reports of their subcommittee's work and recommendations. The Commission voted to endorse several proposals and to recommend them to the Governor and the 1995 General Assembly.

A. TAX CREDITS TO SPUR VIRGINIA COAL PRODUCTION.

The Commission generally endorsed the Coal Subcommittee's proposal to use tax credits to stimulate Virginia's coal production. The Commission directed the Coal Subcommittee to formulate specific legislation implementing this proposal. The Subcommittee consensus on the tax credit package was introduced as House Bill 2575 in the 1995 Session. A copy of the introduced bill is attached as *Appendix P.*

The bill as passed by the 1995 General Assembly (*Appendix Q)* and subsequently signed by the Governor (following the General Assembly's approval of amendments requested by the Governor) retained the general concept but implemented it in ways that varied from the proposal endorsed by the Coal Subcommittee. For example, it provides a choice of tax credits based on seam thickness for underground mining (under 33", 60 cents per ton; over 33", 50 cents per ton), and a smaller tax credit (25 cents per ton) for surface mining. A tax credit is also provided for coalbed methane gas production. However, the multi-level seam thickness credits as proposed by the Coal Subcommittee was replaced with a two-tier credit.

Under the bill as passed, taxpayers begin to accrue the credit for tax years beginning on and after January 1, 1996, and may take the credit on their tax returns beginning January 1, 1999, but only one year of credits is allowed annually. Taxpayers may take only one of the credits. The tax credits may be redeemable by the Tax Commissioner for 95 percent of their face value, or may be transferred by sale if the Tax Commissioner does not redeem the tax credits. No credit may be taken unless general fund revenue in fiscal year 1997-98 exceeds the official estimate of general fund revenue by at least the cost of the credits.

The bill also creates a tax credit of three dollars per ton of coal mined in Virginia purchased by steam producers, defined as persons who sell steam energy to a manufacturing company in the Commonwealth or who use steam to produce manufactured goods. The new tax credits expire in 2001. The current sunset date for the cogenerators tax credit (§ 58.1-433) is extended from 1996 to 2001. The measure also directs the Virginia Port Authority to study the effect of the tax credit on the Ports of Hampton Roads, and directs the Center for public Service and other agencies to study the policy, legal, and economic impacts of the credits authorized by the bill.

B. COAL SUBCOMMITTEE TO CONTINUE ITS EXAMINATION OF THE VIRGINIA COAL INDUSTRY'S ECONOMIC WOES.

The Commission recommended that the Coal Subcommittee continue its examination of the Virginia coal industry's economic problems as part of the Commission's work in 1995. Accordingly, a study resolution was introduced in the 1995 General Assembly Session as House Joint Resolution 586 (*Appendix R*). The resolution requests the subcommittee to continue its ongoing study of ways, including tax credits, of reversing the downward trend in Virginia coal production and employment. In fashioning recommendations, the Coal Subcommittee is directed to consider the potential impacts on Virginia's existing coal producers and strive to ensure that no Virginia producers are given an unfair competitive advantage over other Virginia producers.

C. NATURAL GAS PRODUCTION; TAX EXEMPTION FOR POLLUTION CONTROL EQUIPMENT.

Acting on the Oil and Gas Subcommittee's recommendation, the Commission voted to recommend that the Department of Mines, Minerals and Energy be statutorily designated as a certifying authority for the purposes of certifying pollution control equipment for coal, oil and gas production under subdivision 9 of Va. Code § 58.1-609.3. That code section establishes certain commercial and industrial sales and use tax exemptions, including exemptions for pollution control equipment that is certified as such. As discussed earlier in this report, pit and pond liners used in coalbed methane gas production were not deemed exempt from sales and use taxation by the Department of Taxation, principally because of the lack of a certifying authority.

A bill incorporating the Commission's recommendation was introduced as Senate Bill 654. Its specific terms grant a sales and use tax exemption from July 1, 1994, through June 30, 1996, for certified pollution control equipment which has been certified by the Department of Mines, Minerals and Energy. The bill's provisions were later incorporated into Senate Bill 721 (*Appendix S*) which passed the 1995 General Assembly and was signed into law by the Governor.

D. ENERGY PREPAREDNESS; WEATHERIZATION ASSISTANCE PROGRAM.

The Commission expressed its continuing support for the Commonwealth's energy assistance programs, including the Low Income Home Energy Assistance Program (LIHEAP) and the Weatherization Assistance Program (WAP). During the past two years, it has been suggested to the Commission, principally by the Association of Energy Conservation Professionals (the Association), that home weatherization services and energy assistance payments should be better coordinated. Association representative Billy Weitzenfeld addressed the Commission at its January 10 meeting and urged the Commission to request the Department of Social Services to transfer a percentage of its federal funding for LIHEAP programs to the WAP program.

The Commission agreed to correspond with the Department of Social Services and suggest that, to the extent permitted under the federal Department of Energy grant program that funds LIHEAP, a percentage of LIHEAP funding be redirected to WAP programs. The Commission agreed to do so because its members concluded that more weatherization could reduce fuel consumption by the target group that both WAP and LIHEAP serve. A letter from the Commission's chairman to Commissioner Brunty of the Department of Social Services is attached as *Appendix T*. Commissioner Brunty's letter in response is attached as *Appendix* U.

E. COAL SYMPOSIUM

The Commission expressed its concern to the Governor about the coal industry's economic woes and urged the Governor to convene a coal symposium. Correspondence to the Governor from the Commission's chairman is attached as *Appendix V*. However, while the interest in having a symposium remained high, the Commission directed its Coal Subcommittee to undertake the extensive look at the industry described above in this report. Looking ahead to the Commission's 1995 work, however, the Commission was advised by one of its members, Marilyn Hutton, that funding for a symposium might be available through a special Department of Energy grant program. The Commission will pursue this further in 1995.

Respectfully submitted,

Frank W. Nolen, Chairman
J. Paul Councill, Jr., Vice Chairman
Charles J. Colgan
H. Russell Potts, Jr.
Jackson E. Reasor, Jr.
William C. Wampler, Jr.

Watkins M. Abbitt, Jr.
James F. Almand
George W. Grayson
Harry J. Parrish
Jackie T. Stump
A. Victor Thomas
John Watkins
John S. DiYorio
Jerry D. Duane
Kaye G. Green
W. Thomas Hudson
Marilyn A. Hutton
Everard Munsey
Richard A. Wolfe, Ph.D.

Appendices

FATE

OF

VIRGINIA COAL

APPENDIX A

TYPES OF COAL MINED IN VIRGINIA

STEAM COAL

Primary User - domestic power companies in generation of electrical power

METALLURGICAL COAL

Primary User - foreign steel makers in production of steel

VIRGINIA COAL PRODUCTION

	1990	1991	1992	1993	Difference
Production Tons	46,500,106	42,335,186	42,561,779	40,090,647	- 6,409,459
Surface Operations	7,645,610	8,086,417	8,172,580	9,542,630	1,897,020
Underground Mines	38,854,496	34,248,769	34,389,198	30,548,018	- 8,306,478
Production Employees	10,265	9,756	9,009	9,144	- 1,121
Surface Operations	1,517	1,615	1,329	1,446	- 71
Underground Mines	8,748	8,141	7,680	7,698	- 1,050

Source: Virginia Center for Coal and Energy Research.

SUPPORT PROVIDED TO STEAM COAL PRODUCTION

Several years ago, the General Assembly provided an incentive to most Virginia power companies to burn Virginia coal.

SUPPORT PROVIDED TO METALLURGICAL COAL

NONE

HAMPTON ROADS COAL SHIPMENTS
EXPORTS: 1989-1993
(in million tons)

Exporter	1989	1990	1991	1992	1993
Dominion Terminal	10.1	11.9	15.8	15.6	10.1
Norfolk Southern	31.4	35.4	34.6	31.2	24.9
Pier IX	7.8	7.8	8.1	6.5	3.1
TOTAL	49.3	55.1	58.5	53.3	38.1

Source: Hampton Roads Maritime Association, March 1994. (All figures include coal and coke. Totals may not be equal to 100% due to rounding.)

TOTAL MET EXPORTS
(in million tons)

	1990	2000	2010
Australia	63	93	99
United States	63	40	42
Former USSR	25	15	16
Canada	30	18	19
Other	25	15	12
TOTAL	205	181	189

Source: U.S. DOE/EIA, "Supplement to Energy Outlook 1993," Table 38.

PROBLEM

Reduction in price paid for metallurgical coal:

- *$13.50 - 1982 to 1991*
- *$ 3.50 - 1991 to 1993*
- *$ 3.85 - 1994*
- *$20.85 - TOTAL*

EFFECT OF PRICE REDUCTION ON PITTSTON

In the last 9 months, the enactment of the Coal Act, coupled with the continued drop in the export coal price has forced Pittston to close 5 mines and reduce the work force at other mines and preparation plants. The following are the results of these closures and reductions:

Jobs Lost	478
Wages Lost	$18,471,000 Annually
Payroll Taxes Lost	$ 1,776,000 Annually
County Severance Tax Lost	$ 1,056,000 Annually
County Property Tax Lost	$ 325,000 Annually
Suppliers Revenue Reductions	$10,631,000 Annually
Utility Revenue Lost	$ 2,469,000 Annually
Trucking Revenue Lost	$ 2,235,000 Annually
Rail Freight Not Paid	$29,739,000 Annually
Royalties Not Paid	$ 578,000 Annually

ECONOMIC EFFECT OF PITTSTON'S MINE CLOSURES

$68 million in direct economic benefit lost to Dickenson, Tazewell and Wise Counties, Virginia

Dickenson County	*$27 million*
Tazewell County	*$ 5 million*
Wise County	*$ 6 million*
Railroad	*$30 million*

It is estimated that the "ripple effects" may have more than doubled these economic losses.

PITTSTON 1994

Pittston continues to operate 6 Virginia deep mines and 3 coal preparation plants. In 1993 these mines/plants produced a P&L loss of ($9,616,000).

Jobs	*697*
Wages	*$28,085,000 Annually*
Payroll Taxes	*$ 2,677,000 Annually*
County Severance Taxes	*$ 2,537,000 Annually*
County Property Taxes	*$ 1,525,000 Annually*
Supplies	*$19,955,000 Annually*
Power	*$ 5,090,000 Annually*
Trucking Revenue	*$ 6,778,000 Annually*
Rail Freight	*$44,713,000 Annually*
Royalties	*$ 1,846,000 Annually*

<u>*ECONOMIC BENEFIT*</u>

$113 million of direct economic benefit to Dickenson, Russell, Tazewell and Wise Counties, Virginia

Dickenson County	***$31 million***
Russell County	***$ 9 million***
Tazewell County	***$ 9 million***
Wise County	***$19 million***
Railroad	***$45 million***

excluding "ripple effects", which could more than double this economic benefit

excluding economic benefit to Virginia ports where this coal is shipped through

PITTSTON
WHAT HAS HAPPENED
IN LAST TWO MONTHS

In the last two months, Pittston has been forced to lay off an additional 45 employees at its largest underground coal mine. The following are the results of these layoffs:

Additional Jobs Lost	**45**
Additional Wages Lost	**$ 1,650,000**
Additional Payroll Taxes Lost	**$ 158,000**

Last 11 Months:

Total Jobs Lost	**523**
Total Wages Lost	**$20,121,000**
Total Payroll Taxes Lost	**$ 1,934,000**
Total Severance Taxes Lost	**$ 1,056,000**
Total County Property Taxes Lost	**$ 325,000**

STATUS OF OPERATIONS

Pittston continues to operate 6 underground mines and 3 preparation plants which produce and process metallurgical quality coal. However, with the continued reduction in the price being paid for this metallurgical coal, Pittston cannot guarantee the future of these mines without assistance.

Federal Relief

None

State Relief

Needed

Virginia Coal and Energy Commission
August 30, 1994

Overview of the Virginia Coal Industry

John Randolph
Director
Virginia Center for Coal and Energy Research
Virginia Tech

Trends in the Coal Industry: 1993

- Total production of 40 million tons represented a 5.8% from 1992 and the lowest production since 1983.

- Buchanan County production fell by >20%, and Dickenson County by >12%, while Wise County increased by 15%.

- Underground production dropped by 11% to 30 million tons, the lowest since 1979, while surface production rose to nearly 10 million tons, a 17% increase and the highest level since SMCRA passed in 1977.

- The number of miners inched up to 9,146, but they worked 10% less, so total hours dropped 9% and total wages fell 7%. This amounted to **half** of the real wages earned in 1984.

- In its efforts to compete, the industry attained its highest productivity level on record, 2.75 tons per miner-hour, bolstered by the higher % of more productive surface mining.

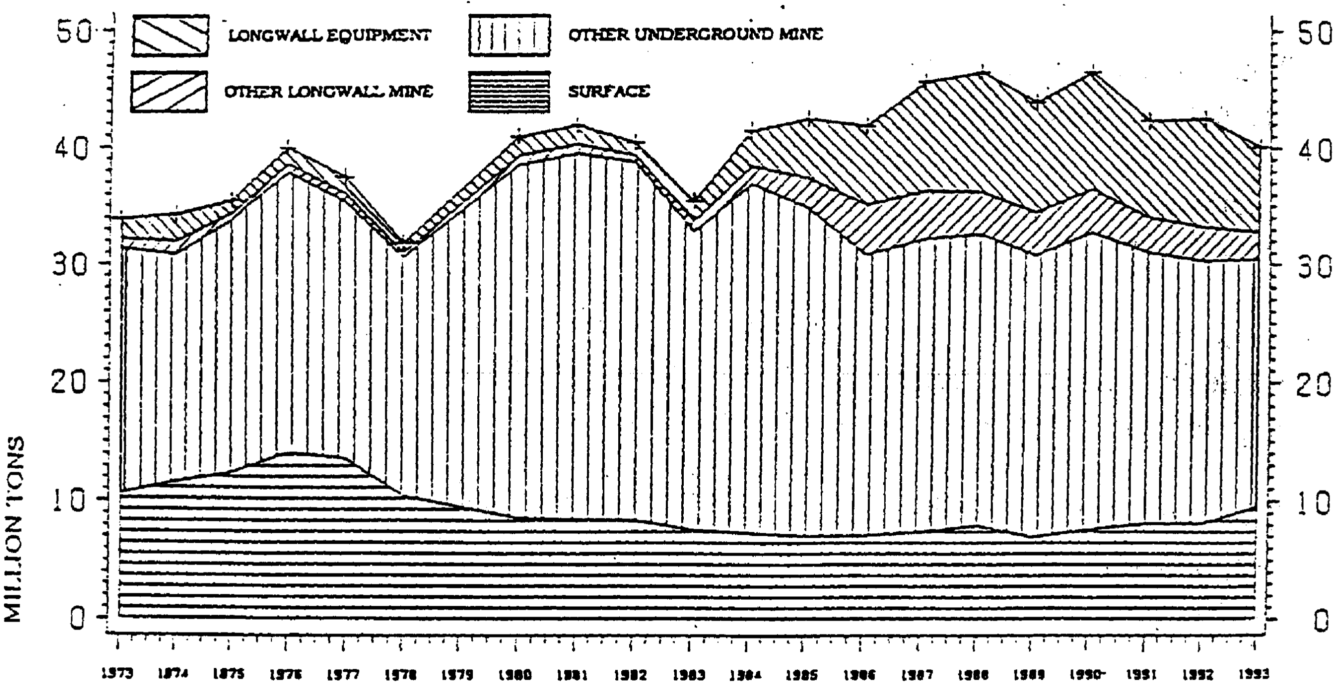
- Average coal prices are not yet available for Virginia, but it is expected that they continued to drop in the first half of the year, with a possible upturn in the last half.

- One major cause of the recent production downturn has been declining exports, which were the main reason for maintaining production levels from 1987 to 1991 and attaining records in 1988 and 1990. Hampton Roads exports dropped 9% in 1992, 29% in 1993, and 18% in the first six months of 1994.

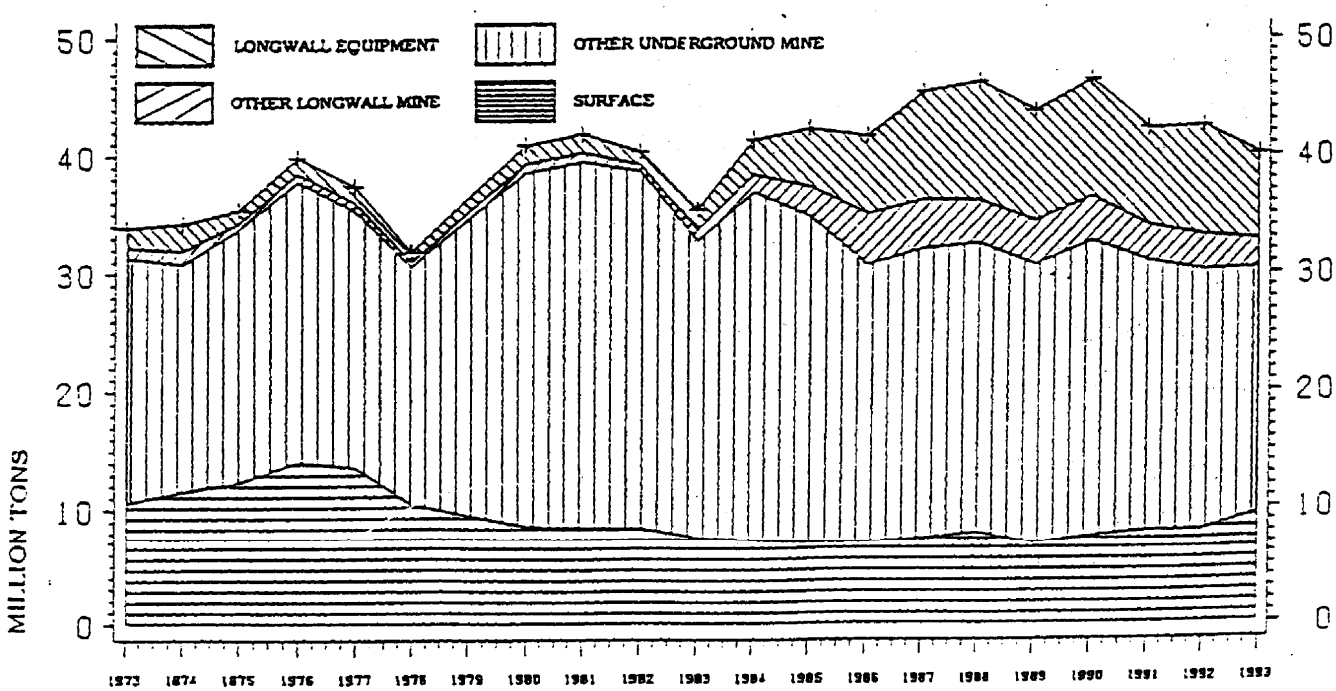
- While exports have slid, domestic utility purchases have picked up the slack a bit. Utilities purchases were up 3% in 1992, 8% in 1993, and 11% in the first quarter of 1994. Meanwhile,domestic coking and industrial use of Virginia coal fell by 20% in the first quarter. There is shift occuring from metalurgical to steam markets.

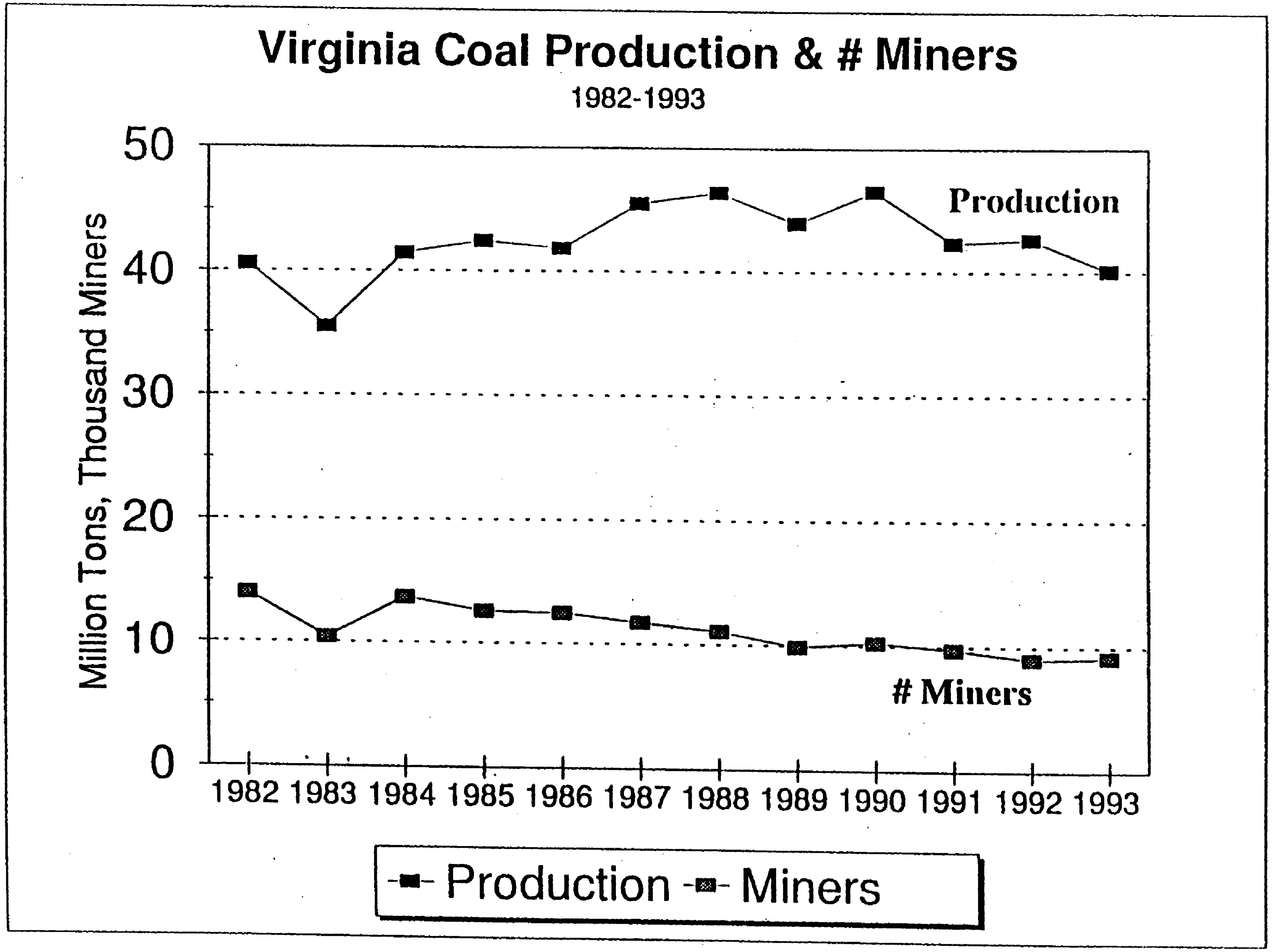
- Virginia supplied 41% of its own coal use in 1992, and found its best domestic customers in the utilities of North Carolina, Georgia, and Tennessee, and coking plants in Indiana and Pennsylvania.

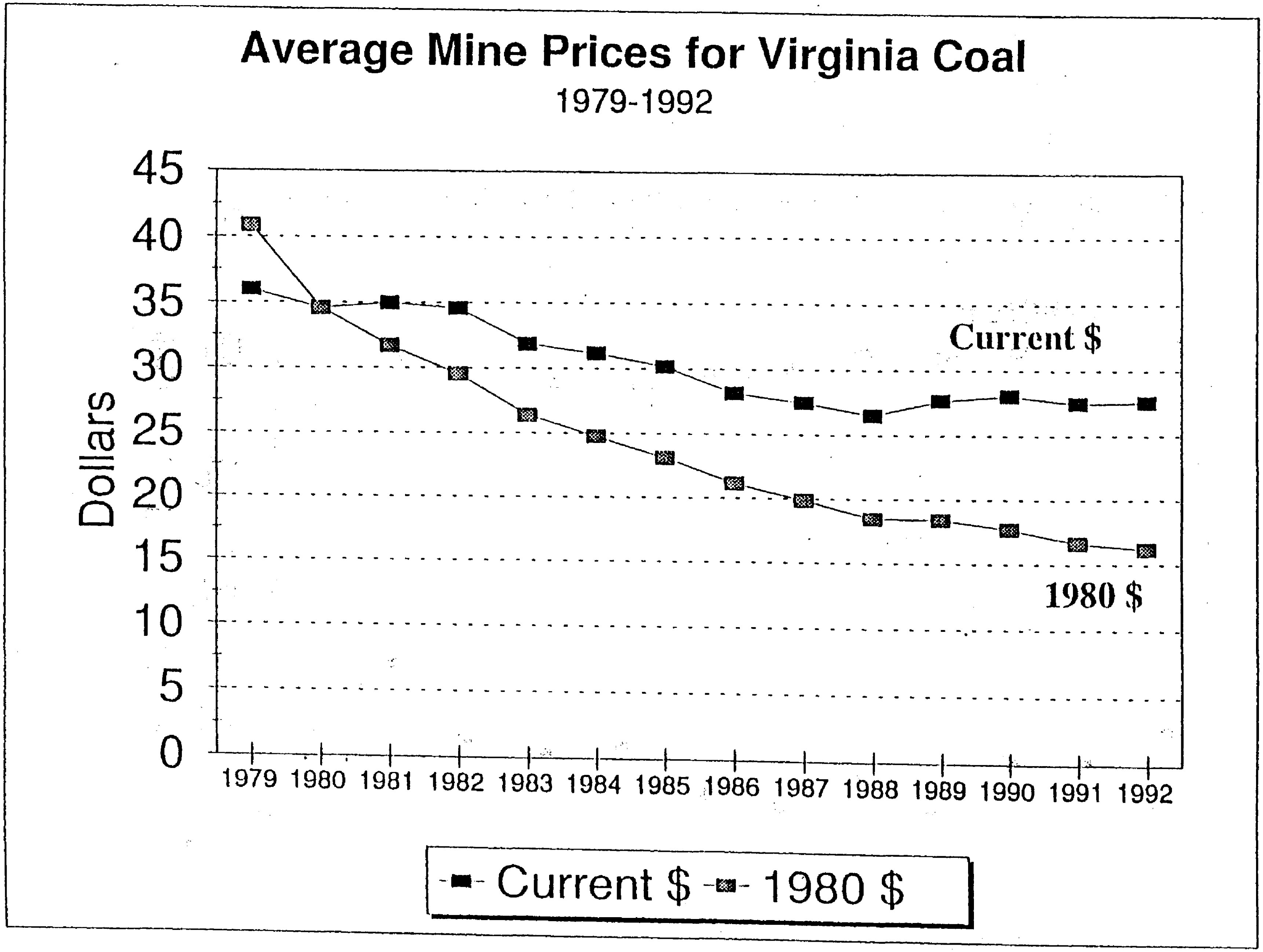
COAL PRODUCTION IN VIRGINIA BY MINING METHOD: 1973-1993



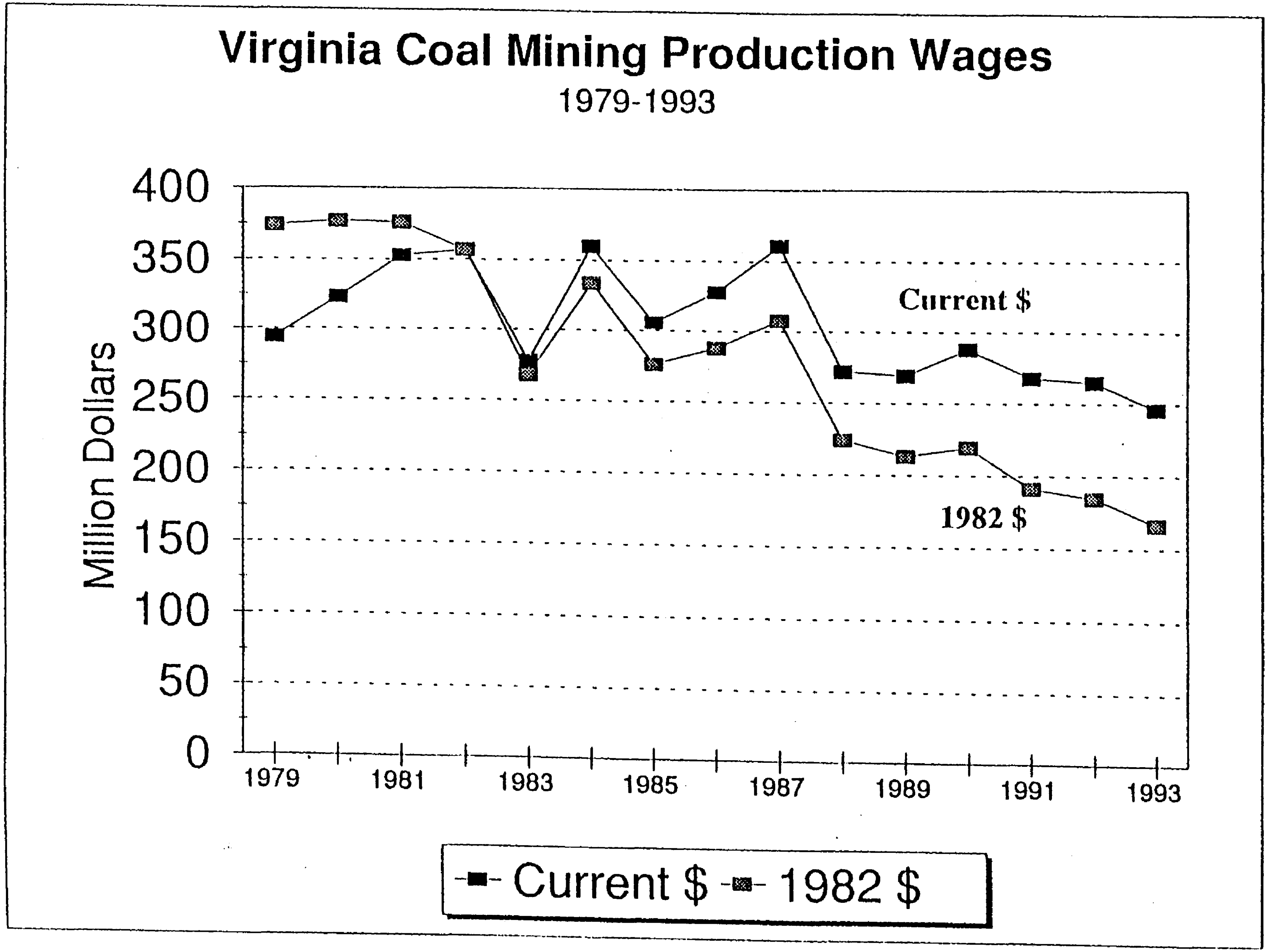
COAL PRODUCTION IN VIRGINIA BY MINING METHOD: 1973-1993

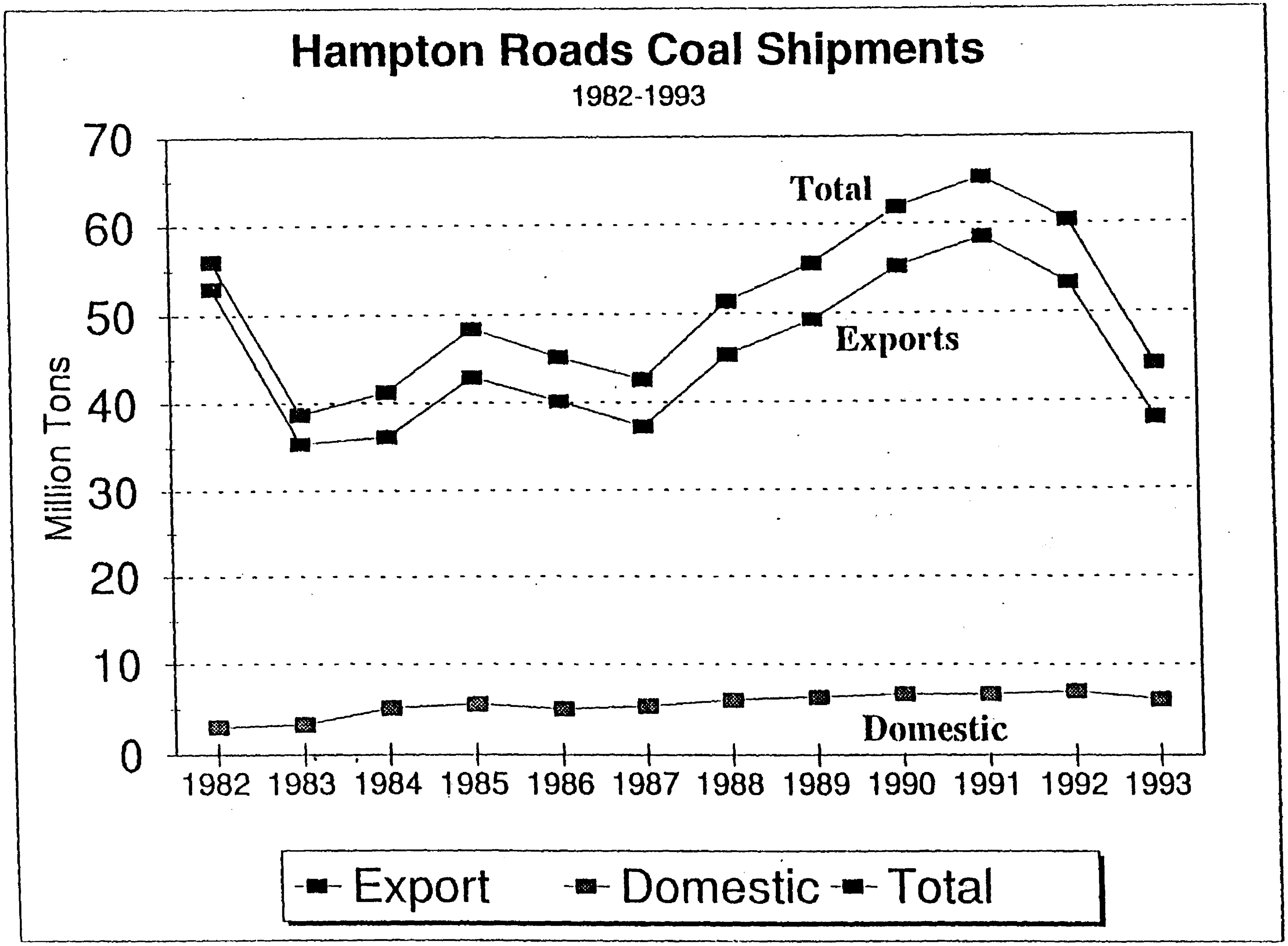



Virginia Coal Production & # Miners
1982-1993
Million Tons, Thousand Miners
50
40
30
20
10
0
1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993
Production
Miners
Production
Miners



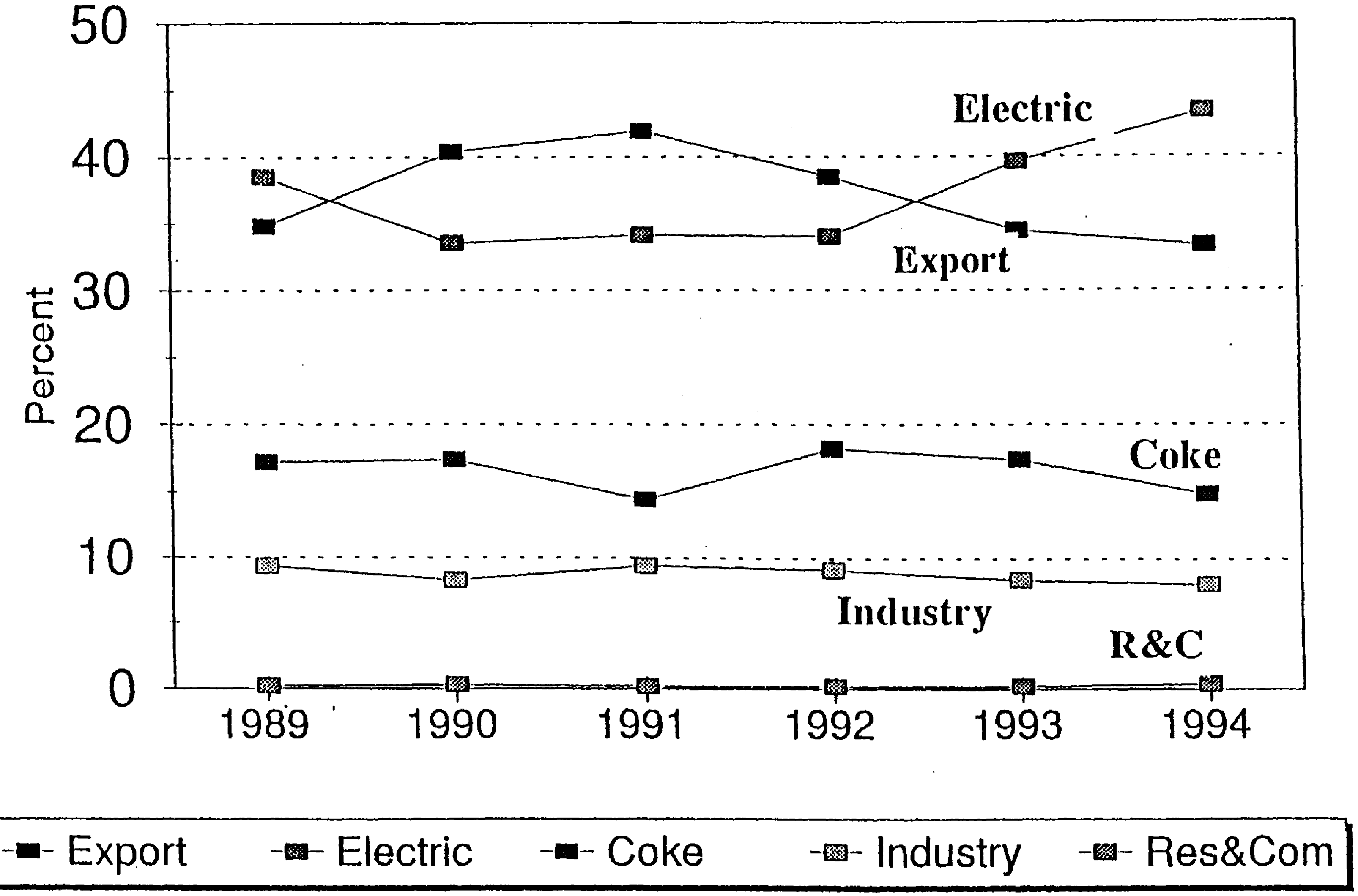
Average Mine Prices for Virginia Coal
1979-1992
Dollars
45
40
35
30
25
20
15
10
5
0
1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992
Current $
1980 $
Current $ 1980 $


Virginia Coal Mining Production Wages
1979-1993
400
350
300
250
200
150
100
50
0
Million Dollars
1979
1981
1983
1985
1987
1989
1991
1993
Current $
1982 $
Current $ 1982 $

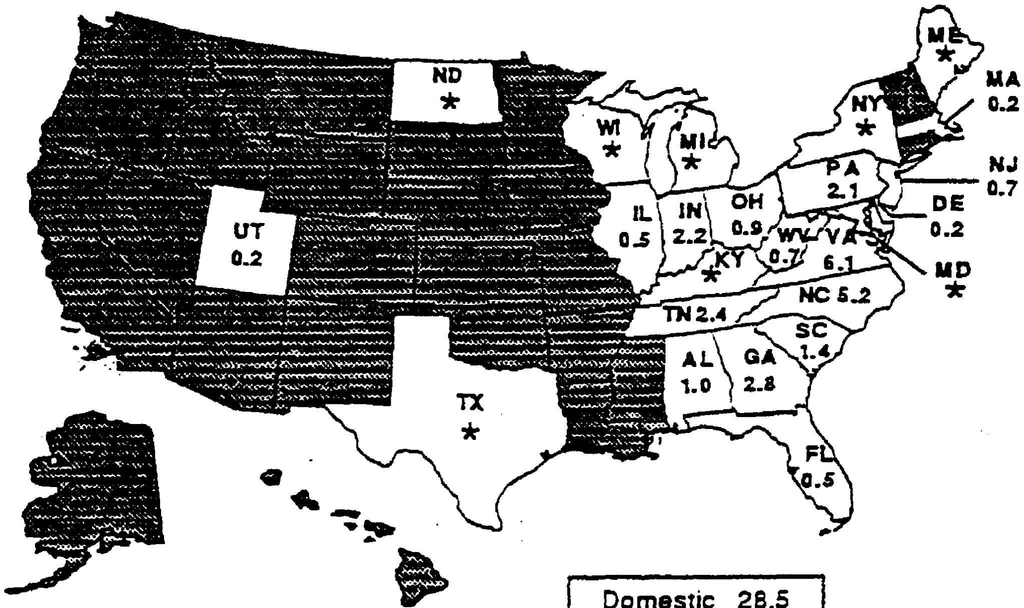

Hampton Roads Coal Shipments
1982-1993
Million Tons
70
60
50
40
30
20
10
0
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
1992
1993
Total
Exports
Domestic
Export
Domestic
Total

Percent Distribution of Virginia Coal

1989-1994 (1994 data, 1st quarter)



Destination of Coal Produced in Virginia, 1992
(Million Short Tons)



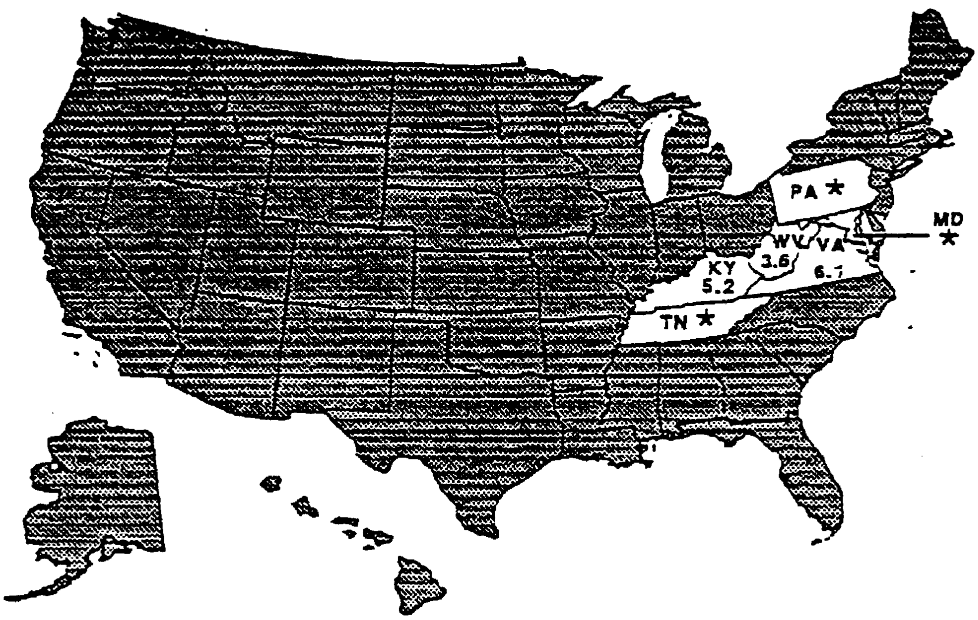
* Quantity is less than 0.1 million short tons.

Domestic	28.5
Exports	17.2
Total	45.7

Transportation modes, domestic markets (percent): rail, 78; water, 13; truck, 1; tramway/conveyor, 3; unknown, 4.

Note: Total may not equal sum of components because of independent rounding.
Source: Energy Information Administration, Form EIA-6, "Coal Distribution Report."

Origin of Coal Received in Virginia, 1992
(Million Short Tons)



* Quantity is less than 0.1 million short tons.

Total	14.9

Note: Total may not equal sum of components because of independent rounding.
Source: Energy Information Administration, Form EIA-6, "Coal Distribution Report."

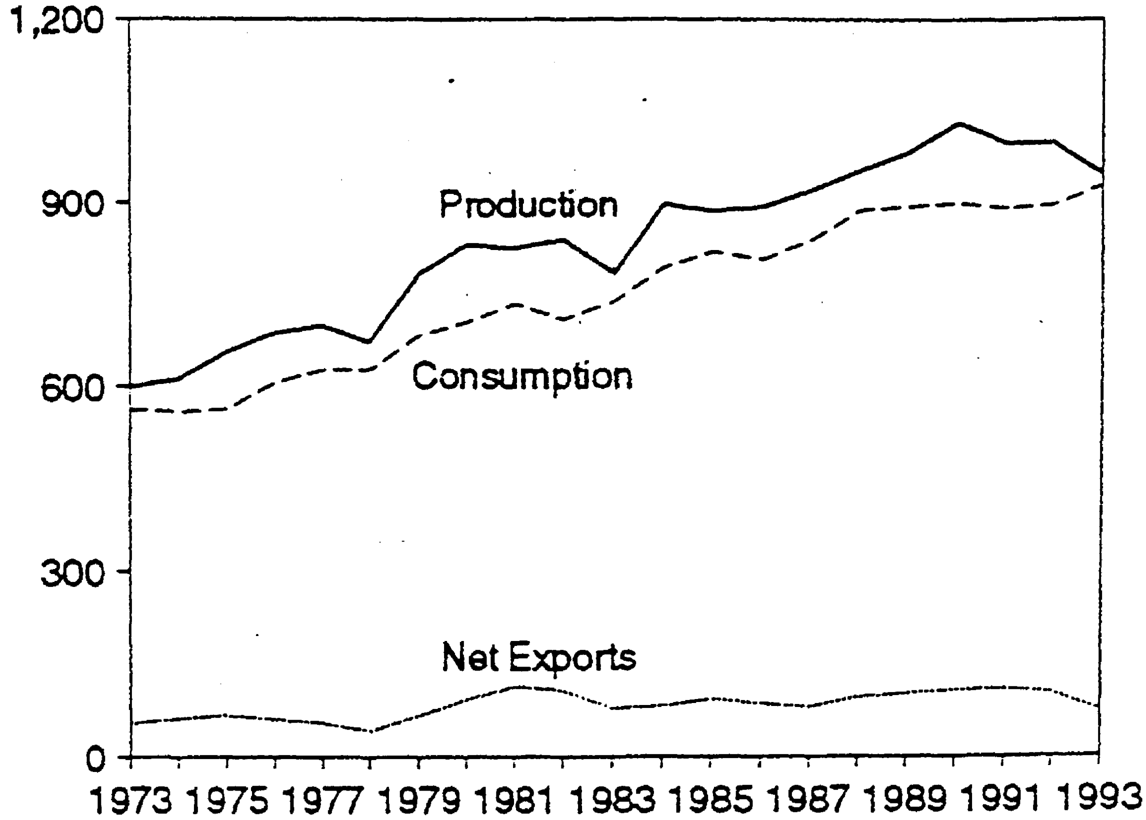
Some Future Prospects?

- Market Prospects: International markets for steam coal are expected to rise, for metalurgical coal to drop slightly. U.S. exports (106 Mtons in 1990), are expected to increase to 133 in 2000, 152 in 2010, but the percentage of met coal is expected to fall from 59% in 1990 to 36% in 2010.

- Domestically, electricity comsumption of coal should grow but not as rapidly as in the past two decades. Low-sulfur Central Appalachian coal should enjoy better market share and higher prices in this market as a result of the Clean Air Act Amendments.

- Related production of coalbed methane increased dramatically in 1993, and may provide opportunities for the future..

Overview, 1973-1993



Consumption by Sector, 1973-1993

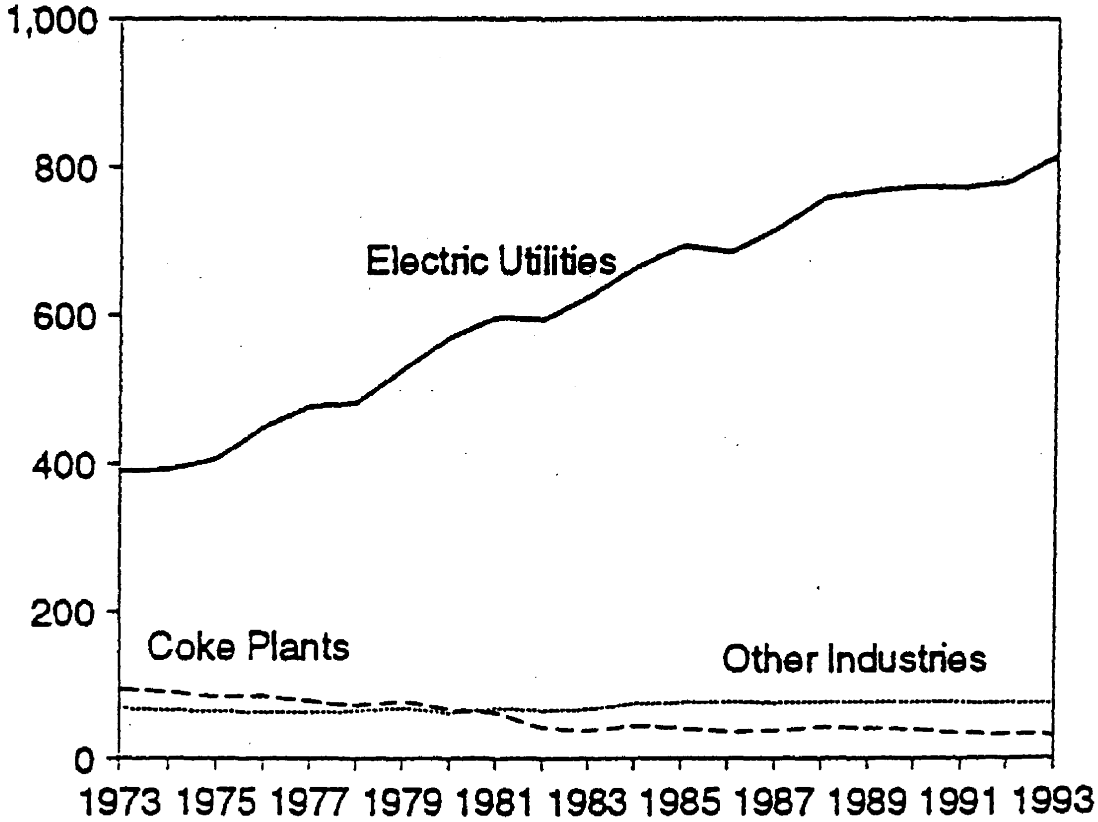
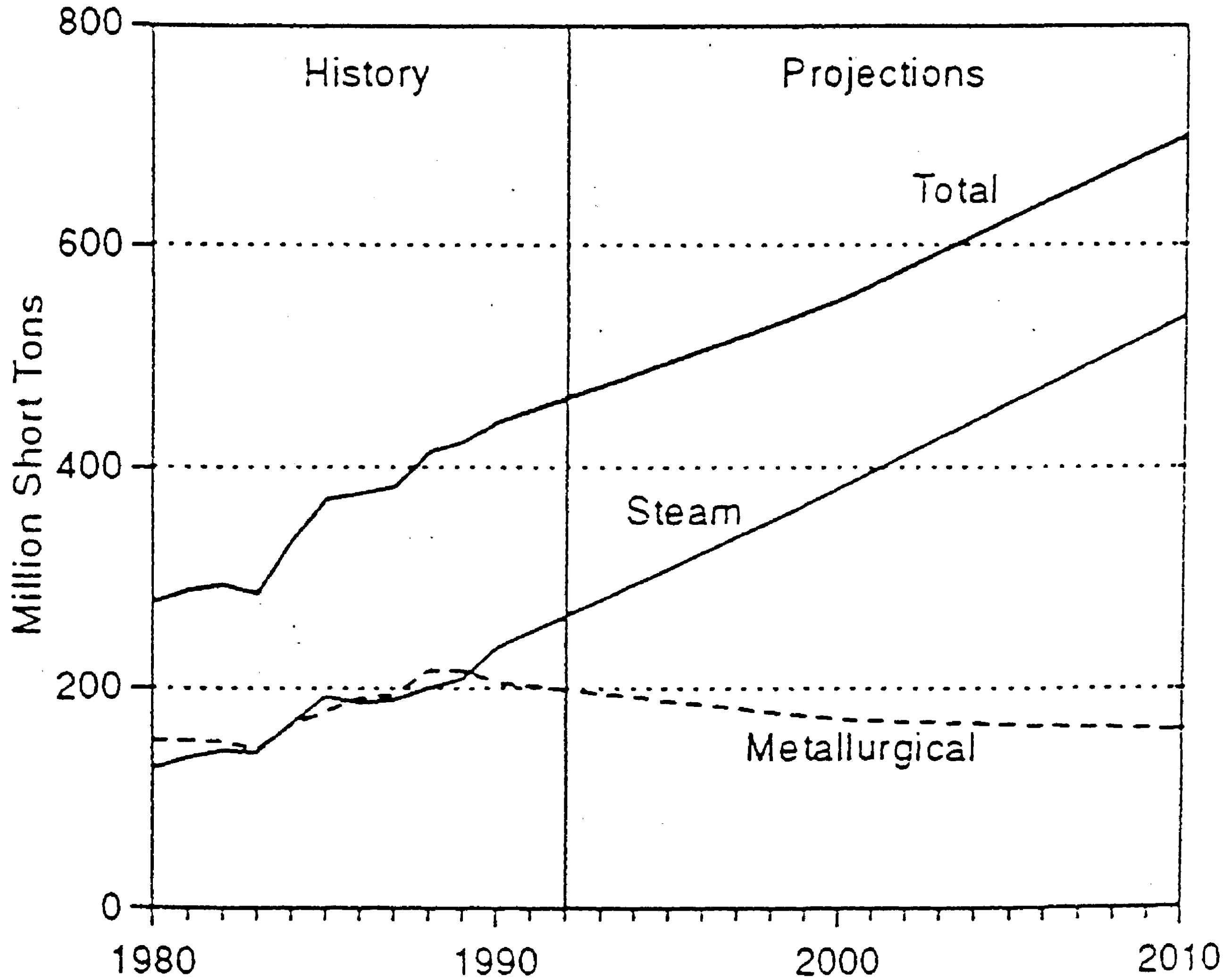
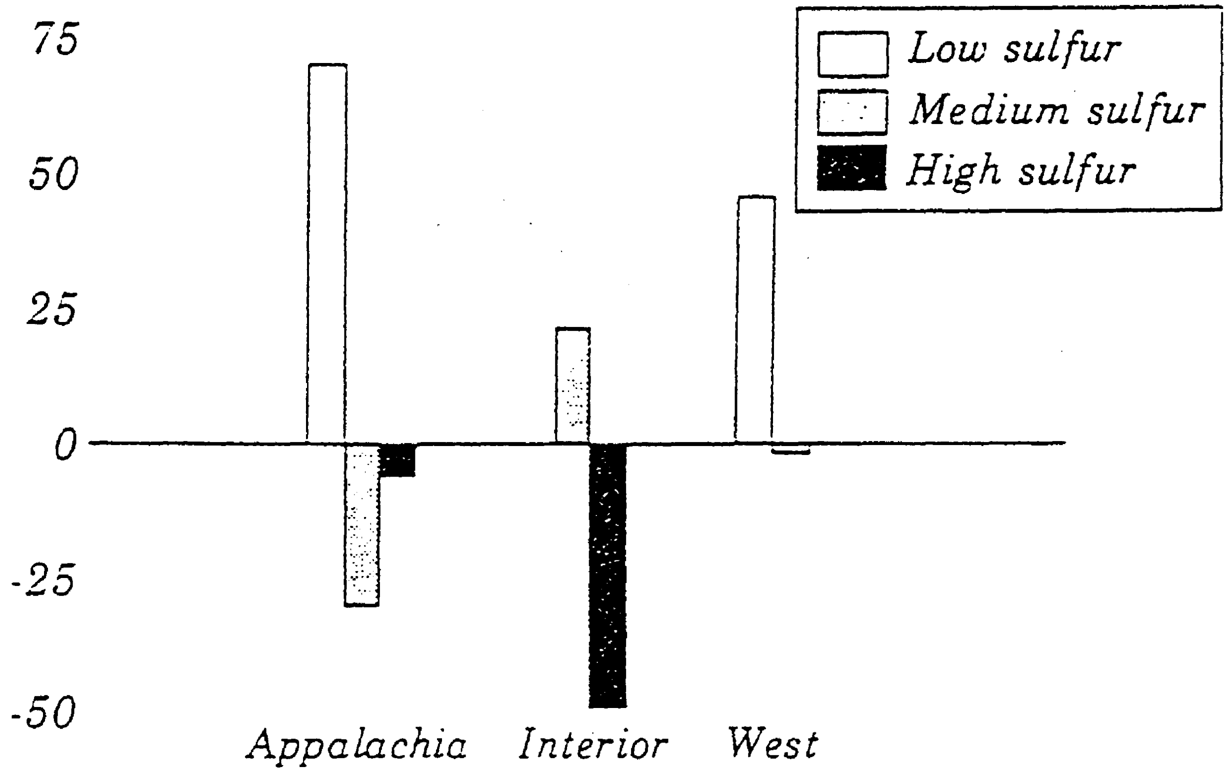


Figure 32. World Coal Trade, 1980-2010



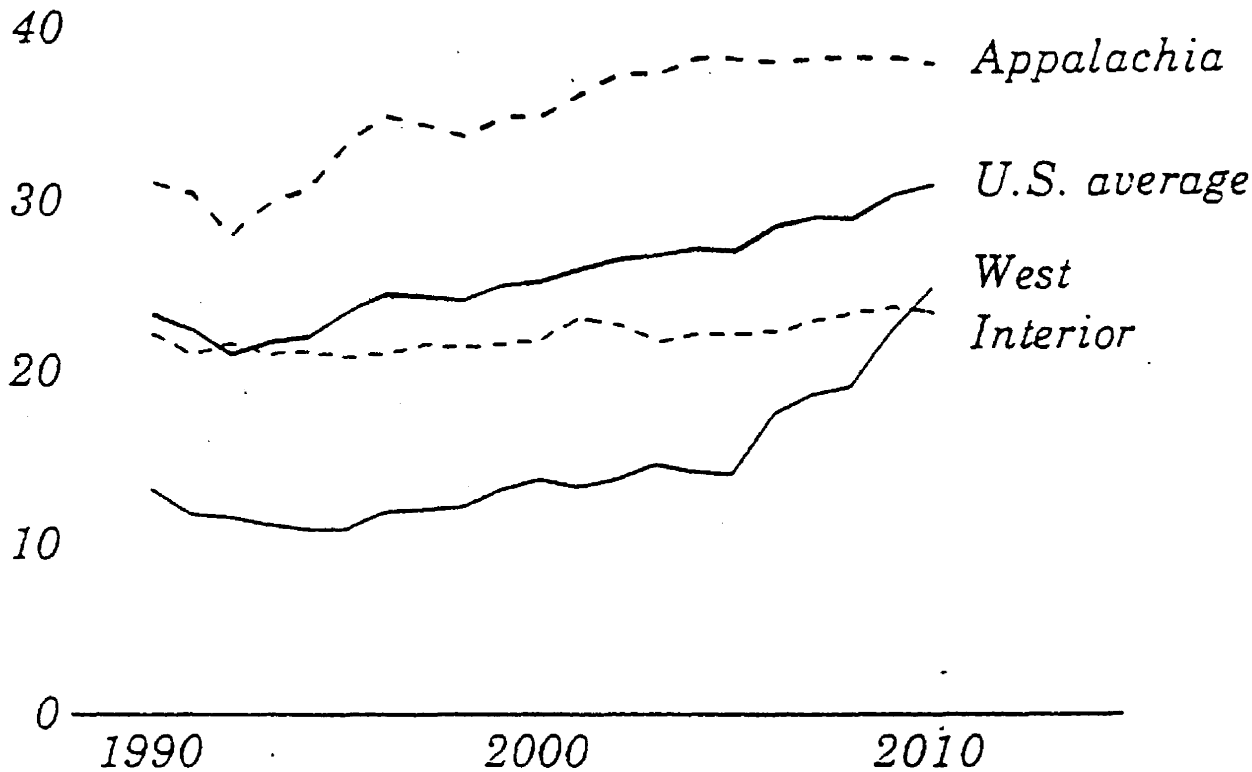
Clean Air Act Amendments of 1990 Increase Demand for Low-Sulfur Coal

Figure 71. Change in U.S. coal production by region and sulfur content, 1990-2000 (million short tons)



Minemouth Coal Prices Rise Slightly

Figure 67. Minemouth coal prices by region, 1990-2010 (1992 dollars per short ton)



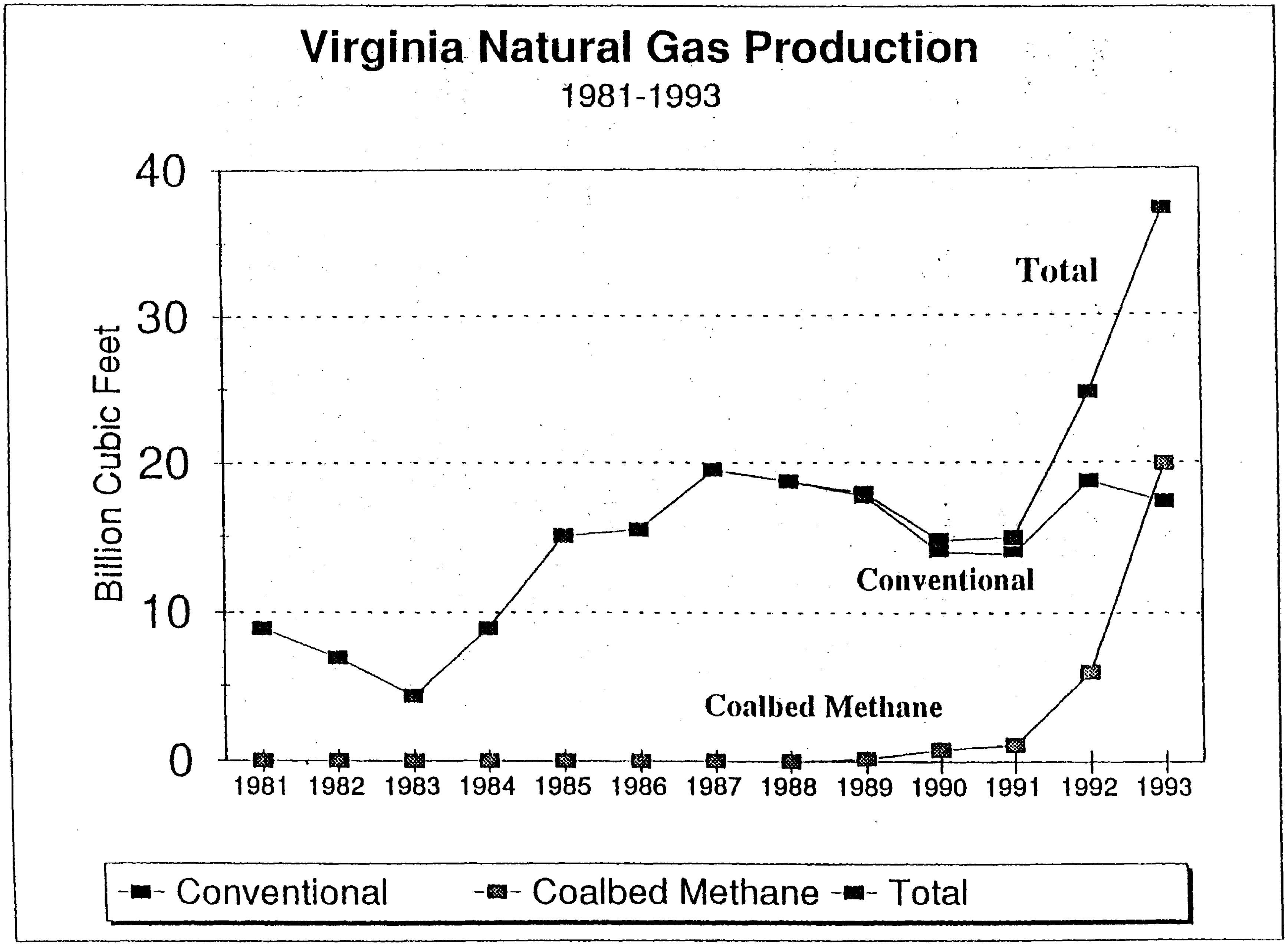

Virginia Natural Gas Production
1981-1993
Billion Cubic Feet
40
30
20
10
0
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
1992
1993
Total
Conventional
Coalbed Methane
Conventional
Coalbed Methane
Total

Table 1-6

INCENTIVES USE BY STATES TO PROMOTE LOCAL COAL

Colorado	$1.00/ton tax credit starting in 1989 for all Colorado coal burned over and above the amount burned in 1988. This tax credit will expire in 2005.
Illinois	The state legislature passed a law which mandated scrubbing on Illinois Power's Baldwin units 1&2 and Commonwealth Edison's Kincaid units 1&2, but did not say when. This law has been declared unconstitutional when challenged by the Alliance for Clean Coal, a non-profit trade association whose members include Arco, Kennecott, BN, UP, C&NW, and SP. The state has appealed to the 7th Circuit.
Indiana	Requires utilities to consider the socio-economic impact of switching to out-of-state coal and allows utilities to obtain pre-approval for scrubbers, eliminating the risk of disallowance after the dollars have been spent.
Kentucky	Passed legislation that (1) creates an environmental surcharge that allows utilities to pass though the capital and operating cost of the scrubber without having a general rate case, and (2) provided for advanced approval of scrubber construction and operation plus profit, thus removing the capital recovery risk.
Maryland	$3.00/ton tax credit to public utility's franchise tax for each ton of Maryland coal in excess of that purchased in 1986. This tax credit also applies to power purchased from a cogenerator or small power producer that has QF status from FERC, in the amount of increased Maryland coal purchased by the QF from 1986.
Montana	Reduced severance tax rate from 30 percent in 1988 to 15 percent in 1992. The Montana severance tax, which was increased to 30 percent in FY 1976 from 34-40 cents/ton in FY 1975 severance tax (Montana's fiscal year runs from July 1 to June 30). This 30 percent severance tax was making Montana coal uncompetitive with Wyoming PRB coal which had an 8.5 percent state severance tax rate.
New Mexico	Waived the $0.60/ton surcharge in the severance tax rate in 1990 on all new coal deals or contract extensions to promote additional sales of New Mexico coal. The severance tax on old sales is still $1.17/ton, which includes a $0.57/ton base and a $0.60/ton surcharge.
North Carolina	Enacted an export tax credit In July 1992 to be effective March 1, 1992 that allows exporters to earn a tax credit for increasing exports through one of the two state docks at Wilmington or Morehead City. This tax credit can be up to 50 percent of the total tax liability, but cannot exceed $1 million per company or individual. Since the loading rate is $1.09 at Wilmington and $1.00/ton at Morehead City, the tax credit is limited to $1.00 or $1.09/ton for the initial increase. Because the base revenue is a rolling three year average, the shipper must continue to increase exports to obtain the tax credit in the future.

Table 1-6
(Continued)

INCENTIVES USE BY STATES TO PROMOTE LOCAL COAL

Ohio	Enacted several laws designed to promote Ohio coal: 1. Authorized utilities to submit plans for compliance with the Phase I acid rain control requirements under the federal CAAA of 1990 to the Ohio PUC for review and approval. 2. Established criteria for approval of the plans and for determining the prudence of compliance decisions mad by companies that submit plans. 3. Authorized the Commission to permit a utility constructing any of certain types of air pollution control facilities under its approved compliance plan to collect a surcharge for construction work in progress, 4. Provided a \$1.00/ton tax credit to defray part of the cost of installing or using an air pollution control facility if the unit is burning at least 80 percent of its heat content from Ohio coal when blended with other coals for Phase I compliance purposes, or at least 90 percent, otherwise, (the sum of these credits is not to exceed 20 percent of the cost of the compliance facility associated with the unit, and the tax credit must be returned to the customer within three years, it cannot be retained or dividended out to the shareholders), and 5. Established an expedited process through 1999 for issuing solid waste facility and air and water permits necessary to dispose of the residues produced by air pollution control facilities.
Oklahoma	Passed legislation that required Oklahoma utilities to burn at least 10 percent Oklahoma coal. This law was determined in Federal court to be unconstitutional, and as a result, Oklahoma amended the law to change the incentive to a \$1.00/ ton tax credit to begin in 1993. However, this legislation has not been that effective in encouraging utilities to burn local coal instead of Wyoming Powder River Basin (PRB) coal because the cost differential exceeds \$1.00 per ton. As such, Oklahoma Gas & Electric has not purchased any Oklahoma coal in the first half of 1994. The other coal-fired utility in Oklahoma, GRDA, does not pay Oklahoma income tax, and consequently, is not affected by the tax credit incentive.
Pennsylvania	In 1985, Pennsylvania passed legislation that effectively prevents all utilities in Pennsylvania from importing foreign coal by making it illegal for a utility to burn foreign coal if the provide electricity to a State-owned facility. However, this language does not protect Pennsylvania coal from other U.S. coals.
Virginia	o \$3/ton gross receipts tax credit to Virginia public utilities for each ton of Virginia coal purchased. The tax credit was \$1/ton in 1987, \$2/ton in 1988 and 1989, and \$3/ton since 1990 and will continue through the year 2000. o \$2/ton tax Virginia state income tax credit to cogenerators selling power to a public utility in Virginia, and will continue through the 1996. o Preference to Virginia coal at state-owned facilities.

COMMONWEALTH of VIRGINIA

COAL AND ENERGY COMMISSION
General Assembly Building

910 CAPITOL STREET
SECOND FLOOR
RICHMOND, VIRGINIA 23219

IN RESPONSE TO
THIS LETTER TELEPHONE
(804) 786-3591

September 29, 1994

Dear Senator/Congressman:

Members of the Virginia Coal & Energy Commission recently learned of bills introduced in Congress that would increase the vessel tonnage tax to finance the Maritime Security Program. I am writing to let you know that the Commission recently went on record in opposition to provisions in these measures (H.R. 4003 and S.1945) harming the competitiveness of Virginia coal in the international export market.

Coal is a bulk commodity sold by the ton. In today's international coal market, fierce competition among sellers from the U.S., Australia, Columbia and other coal-producing countries has driven international prices so low that a few cents per ton means the difference between a Virginia coal sale and no sale. Virginia mine operators' profit margins are currently razor-thin because of these depressed prices and the high cost of extracting and transporting coal from thin seams in Virginia's deep mines. Consequently, increasing the vessel tonnage tax by any amount will be devastating to Virginia coal producers under current market conditions.

The Commission recently received testimony that within the past nine months the Pittston Coal Company, until recently a major Virginia seller in the metallurgical coal export market, shut down five mines and substantially reduced operations at its coal processing facilities. The reason: prevailing market prices. The result: nearly 500 Pittston mining employees lost their jobs, and Southwest Virginia businesses and localities lost the spending power of these employees' $18.5 million in annual wages.

The Pittston Company's experience vividly demonstrates that the Virginia coal industry cannot absorb any further increases in its operating costs. And, Southwestern Virginia cannot afford to lose any more jobs when its high unemployment rate is at near-Depression levels today.

We recognize the laudable goals of the Maritime Security Program this tax increase is intended to fund; Virginia's own shipbuilders are struggling. However, attempting to support the shipping industry be means injurious to the coal industry--one of the few U.S. industries with a positive trade balance--is not good policy. In the long run, such a policy and others like it can only harm our nation's economy.

The Virginia Coal & Energy Commission urges you to oppose provisions in H.R. 4003 and S.1945 increasing the vessel tonnage tax on coal export shipments.

Sincerely,

Frank W. Nolen
Chairman
Member, Senate of Virginia

NORMAN SISISKY
4TH DISTRICT, VIRGINIA

WASHINGTON OFFICE:
2352 RAYBURN BUILDING
WASHINGTON, DC 20515-4604
(202) 225-6365

ARMED SERVICES COMMITTEE
CHAIRMAN, OVERSIGHT AND INVESTIGATIONS
MILITARY ACQUISITION

SMALL BUSINESS COMMITTEE
REGULATION, BUSINESS OPPORTUNITIES, AND TECHNOLOGY
PROCUREMENT, TAXATION AND TOURISM

JAN 03 1995

Congress of the United States
House of Representatives
Washington, DC 20515-4604

CONSTITUENT SERVICE OFFICES:
BRISTOL SQUARE [illegible]
309 COUNTY STREET
PORTSMOUTH, VA 237[illegible]
804-393-2068

43 RIVES
PETERSBURG
804-732-[illegible]

EMPORIA EXECUTIVE CENTER
425H SOUTH MAIN STREET
EMPORIA, VA 23847
804-634-5575

December 5, 1994

The Honorable Frank W. Nolen
Chairman, Coal and Energy Commission
General Assembly Building
910 Capitol Street, 2nd Floor
Richmond, Virginia 23219

Dear Frank:

Thank you for your recent letter regarding H.R. 4003, the Maritime Security and Trade Act of 1994, and your concerns regarding a proposed increase in the vessel tonnage tax. I am glad to know your views on this issue.

As you may know, this measure did pass the House on August 2, 1994. However, the Senate did not consider the legislation before the end of the 103rd Congress.

Please know that I will remember your strong views on this matter should it be considered during the next session of Congress. Do not hesitate to contact me again on this or any other issue. In the meantime, this letter is accompanied by my very best wishes for you and your family.

Sincerely,

Norman

NORMAN SISISKY
Member of Congress

NS/cp

NOV 0 , 1994

BOB GOODLATTE
6TH DISTRICT, VIRGINIA

214 CANNON HOUSE OFFICE BUILDING
WASHINGTON, DC 20515
(202) 225-5431

COMMITTEE ON THE JUDICIARY

COMMITTEE ON AGRICULTURE

Congress of the United States
House of Representatives

October 27, 1994

The Honorable Frank W. Nolen
P. O. Box 13
New Hope, Virginia 24469

Dear Frank:

Thank you for writing to express your opposition to H.R. 4003, the Maritime Reauthorization Act. I think your comments are right on target.

I voted against H.R. 4003 because it increased tonnage fees. As you pointed out in your letter, this hurts the coal industry to help the ship building industry. I recognize and understand the great importance the ship building industry plays in our nation's defense and economic security. The federal government has a vital role to play in sustaining this important industry, but it should not be done through tax increases. Instead the federal government should create incentives for private investment.

While H.R. 4003 passed the House of Representatives on August 2, 1994 by a 294-122 vote, it was never considered by the full Senate. I will pay close attention to this matter if it is considered in the 104th Congress which convenes next year.

Thanks again for writing. Please don't hesitate to contact me if I can be of assistance in the future.

Sincerely,

Bob

Bob Goodlatte
Member of Congress

RWG:kk

2 SOUTH MAIN STREET
SUITE A, FIRST FLOOR
HARRISONBURG, VA 22801
(703) 432-2391

916 MAIN STREET
SUITE 300
LYNCHBURG, VA 24504
(804) 845-8306

540 CRESTAR PLAZA
10 FRANKLIN ROAD, S.E.
ROANOKE, VA 24011
(703) 857-2672

114 NORTH CENTRAL AVENUE
STAUNTON, VA 24401
(703) 885-3861

ROBERT C. (BOBBY) SCOTT
3D DISTRICT, VIRGINIA
501 CANNON OFFICE BUILDING
WASHINGTON, DC 20515-4603
(202) 225-8351

COMMITTEES:
EDUCATION AND LABOR
SUBCOMMITTEES:
POST-SECONDARY EDUCATION AND TRAINING
SELECT EDUCATION AND CIVIL RIGHTS
HUMAN RESOURCES
JUDICIARY
SUBCOMMITTEE:
ECONOMIC AND COMMERCIAL LAW
SCIENCE, SPACE, AND TECHNOLOGY
SUBCOMMITTEE:
ENERGY, VICE CHAIRMAN

Congress of the United States
House of Representatives
Washington, DC 20515-4603

DISTRICT OFFICES:
NEWPORT NEWS:
2600 WASHINGTON AVE.
SUITE 1010
NEWPORT NEWS, VA 23607
(804) 380-1000
RICHMOND:
THE JACKSON CENTE
501 N. 2ND STREE
RICHMOND, VA 23219-132
(804) 644-4845

November 15, 1994

The Honorable Frank W. Nolen
Virginia Senate
PO Box 13
New Hope, Virginia 24469-0013

Dear Senator Nolen:

Thank you for your recent letter regarding your opposition to H.R. 4003 and S. 1945, the Maritime Administration Authorization Act for Fiscal Year 1995.

As you may know, the last action taken on H.R. 4003 was its referral to the Senate Committee on Commerce, Science and Transportation on August 3, 1994 after passing the House on the previous day. Although no further action was taken by the 103rd Congress, please be assured that I will be mindful of your views should the issue arise in the next Congress.

I appreciate you taking the time to inform me of the position of the Virginia Coal and Energy Commission. Please do not hesitate to contact my office should you have additional legislative concerns.

Very truly yours,

Bobby Scott

Robert C. Scott
Member of Congress

RCS/kmm

JOHN WARNER
VIRGINIA

COMMITTEES:
ARMED SERVICES
SELECT COMMITTEE ON INTELLIGENCE
ENVIRONMENT AND PUBLIC WORKS
RULES AND ADMINISTRATION

United States Senate

225 RUSSELL SENATE OFFICE BUILDING
WASHINGTON, DC 20510-4601
(202) 224-2023

CONSTITUENT SERVICE OFFICES:

4900 WORLD TRADE CENTER
NORFOLK, VA 23510-1624
(804) 441-3079

MAIN STREET CENTRE II
600 EAST MAIN STREET
RICHMOND, VA 23219-3538
(804) 771-2579

235 FEDERAL BUILDING
180 WEST MAIN STREET
ABINGDON, VA 24212-0887
(703) 628-8158

1003 FIRST UNION BANK BUILDING
213 SOUTH JEFFERSON STREET
ROANOKE, VA 24011-1714
(703) 857-2676

November 15, 1994

The Honorable Frank W. Nolen
Chairman
Virginia Coal and Energy Commission
910 Capitol Street, Second Floor
Richmond, Virginia 23219

Dear Senator Nolen:

Thank you for your letter of September 29, 1994, expressing your opposition to any increase in the vessel tonnage tax.

As you may know, the House approved H.R.4003, the Maritime Security and Competitiveness Act of 1994, on August 2, 1994, by a vote of 268-153. That bill and S.1945, the Maritime Administration Authorization Act, were both referred to the Senate Committee on Commerce, Science, and Transportation.

The Virginia Port Authority, the Hampton Roads Maritime Association, coal producers, railroads, and transhippers have told me how detrimental the vessel tonnage tax would be to bulk commodity competitiveness in world trade. As you noted, bulk commodities are extremely price sensitive in the world market, and I am particularly concerned with the impact on the Virginia coal industry. At a time when the U.S. trade deficit is extremely high, I agree that we cannot risk losing any more export markets.

You will be interested to know that on August 18, I contacted Senator Ernest Hollings, Chairman of the Senate Commerce Committee, to convey my concerns. The proposed vessel tonnage tax should either be modified, or an alternative means of financing should be explored. I am sure you share my satisfaction that the 103rd Congress adjourned without taking further action. With the 104th Congress now taking shape under new leadership for the coming year, I will be working to ensure that any future legislation will involve careful examination of the impact of the tax increase on the Virginia coal industry.

Again, I thank you for contacting me to express your views and the views of the Coal and Energy Commission.

With kind regards, I am

Sincerely,

John Warner

John Warner

JW/rtd

CHARLES S. ROBB
VIRGINIA

WASHINGTON OFFICE:
Russell Senate Office Building
First and Constitution Avenue, N.E. Room 493
Washington, DC 20510
(202) 224-4024

United States Senate

WASHINGTON, D.C. 20510

COMMITTEES:
ARMED SERVICES
COMMERCE, SCIENCE, AND TRANSPORTATION
FOREIGN RELATIONS
Chairman, East Asian and Pacific Affairs Subcommittee
JOINT ECONOMIC COMMITTEE
Vice Chairman, Democratic Policy Committee

October 4, 1994

The Honorable Frank W. Nolen
Chairman
Coal and Energy Commission
910 Capitol Street, Second Floor
Richmond, Virginia 23219

Dear Mr. Nolen:

Thank you for contacting me to express your opposition to the tonnage tax increase proposed in H.R. 4003, the "Maritime Security and Trade Act of 1994". I appreciate hearing from you on this matter.

You'll be pleased to know that the Senate will not consider H.R. 4003 or any maritime reform proposals increasing the tonnage tax this year. Should this matter arise next year in the 104th Congress, I'll be sure to keep your views in mind.

Again, thank you for contacting me on this issue, and I hope that you will continue to contact me on matters of importance to you.

Sincerely,

Chuck

Charles S. Robb

CSR\clc

:ate Office: Regional Offices:

: City Hall
)1 East Broad Street
:nmond, VA 23219
-4) 771-2221

Dominion Towers, Suite 107
999 Waterside Drive
Norfolk, VA 23510
(804) 441-3124

1 Court Square
Suite 340
Harrisonburg, VA 22801
(703) 432-1551

8229 Boone Boulevard
Suite 888
Vienna, VA 22182
(703) 356-2006

Dominion Bank Building
Main Street
Clintwood, VA 24228
(703) 926-4104

Signet Bank Building
530 Main Street
Danville, VA 24541
(804) 791-0330

Crestar Bank Building
310 First Street SW Suite 102
Roanoke, VA 2401
(703) 985-0103

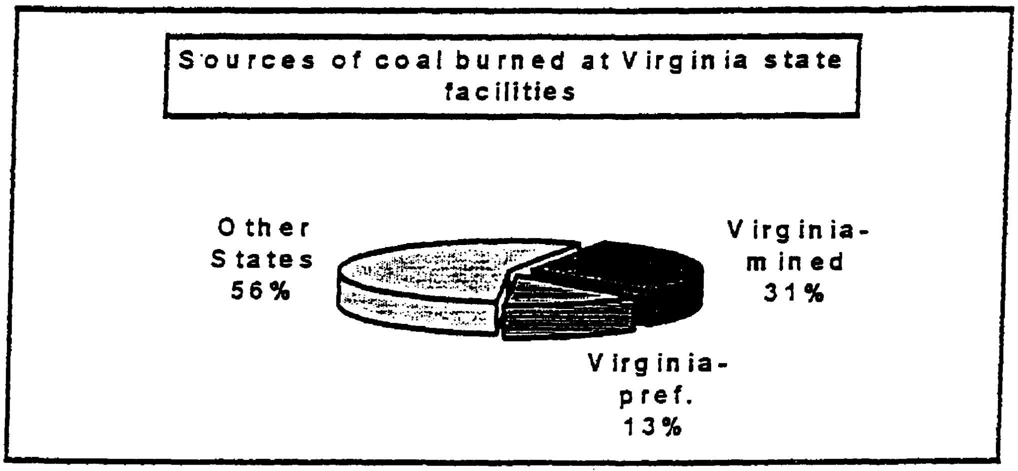
Summary of Coal Purchases for State Facilities

- Virginia's state agencies and institutions purchased 60,090 tons of coal in fiscal year 1993-1994, and are expected to purchase similar amounts in fiscal year 1994-1995.

- Of the 60,090 tons purchased (or to be purchased), 26,599 tons are Virginia-mined coal.

- The 26,599 tons of Virginia-mined coal purchased includes 8,079 tons purchased pursuant to the statutory preference for Virginia coal authorized by Va. Code § 11-47.1 (see below). The preference added approximately $23,000 per annum to the cost of state coal purchases in 1993-1994 and will add the same amount in 1994-1995. The breakdown of preference purchases is as follows:

  – 1,000 tons – Piedmont Geriatric Hospital.
  – 6,000 tons – Virginia Tech.
  – 1,079 tons – Nottaway Correctional Center.



data furnished by the Department of General Services

§ 11-47.1. Priority for Virginia coal used in state facilities.
In determining the award of any contract for coal to be purchased for use in state facilities with state funds, the Department of General Services shall procure using competitive sealed bidding and shall award to the lowest responsive and responsible bidder offering coal mined in Virginia so long as its bid price is not more than four percent greater than the bid price of the low responsive and responsible bidder offering coal mined elsewhere.

E:\DLSDATA\BUSJURIS\PERMCOMM\CL_ENRGY\COALPURC.DOC

*F U E L   U N I T   C O S T S**

FUEL	COST	COST PER 10^6 BTU	COST PER THOUSAND # OF STEAM	BOILER EFFICIENCY
COAL	48 $/TON	$1.74	$2.36	74%
GAS	2.85 $/MCF	$2.85	$3.61	79%
No.6 OIL	0.38 $/GAL	$2.53	$3.24	78%
No.2 OIL	0.60 $/GAL	$4.28	$5.22	82%
SAWDUST	14 $/TON	$1.17	$1.80	65%

* *NOTES*

1. *These unit costs are typical in the Fall of 1994 in Central Virginia.*
2. *They are seasonal and subject to market changes. They must be evaluated for each boiler plant construction project.*

CENTRAL HEATING PLANTS

F U E L S AND S T A T U S

AGENCY	PRIMARY FUEL	SECONDARY FUEL	STARTUP/ CHANGES
		CORRECTIONS	
AUGUSTA	SAWDUST	COAL	ORIGINAL
BLAND	COAL	NO. 2 OIL	COAL ORIG; OIL ADDED
BRUNSWICK	COAL	NO. 2 OIL	2-COAL SUBST; ORIG OIL
BUCKINGHAM	COAL	NONE	ORIGINAL
GREENSVILLE			
MAIN PLANT	COAL	NONE	ORIGINAL
LAUNDRY/DINING	NO. 2 OIL	NONE	ORIGINAL
JAMES RIVER	NO. 6 OIL	NONE	COAL ORIGINAL
KEEN MOUNTAIN	COAL	NO. 2 OIL	ORIGINAL COMBO.
MECKLENBURG	NO. 6 OIL	NONE	ORIGINAL
NOTTOWAY	COAL	NONE	ORIGINAL
POWHATAN			
MAIN PLANT [a]-	~~COAL~~	~~NO. 6 OIL~~	*RENOVATION IN PROGRESS*
SLAUGHTERHOUSE	NO. 2 OIL	NONE	UNCERTAIN
ST. BRIDES	NO. 4 OIL	NONE	ORIGINAL
SOUTHAMPTON	COAL	NO. 6 OIL	COAL ORIG; OIL ADDED
STAUNTON [b]-	~~COAL~~	~~NONE~~	*RENOVATION IN PROGRESS*
VIRGINIA WOMEN	COAL	NONE	ORIGINAL
RED ONION MTN MSI [c]-	*NAT. GAS*	*NO. 2 OIL*	*DESIGN IN PROGRESS*
SUSSEX MSI [c]-	*LANDFILL GAS*	*NO. 2 OIL*	*DESIGN IN PROGRESS*

EDUCATION

EORGE MASON	NO.~~5~~ *2 OIL*	NONE *(GAS PLANNED)*	ORIGINAL (HTHW)
JAMES MADISON	NAT. GAS	NO. 6 OIL	COAL ORIG; CITY WASTE-TO-ENERGY STM
LONGWOOD	SAWDUST	NO. 6 OIL	COAL, 1; OIL, 2;+ SAWDUST
MARY WASHINGTON	NAT. GAS	NO. 6 OIL	COAL ORIGINAL
MEDICAL COLLEGE	NAT. GAS	NO. 6 OIL	COAL ORIGINAL
RADFORD	NAT. GAS	NO.6 OIL *(GOTO #2)*	COAL ORIGINAL
U. OF VIRGINIA:			
MAIN PLANT	COAL	NAT. GAS/NO.6 OIL	COAL ORIG; + GAS/OIL
COPLEY HILL	NAT. GAS	NO. 2 OIL	ORIGINAL
BLUE RIDGE HOSP.	b- ~~COAL~~	NO.6 OIL + GAS	COAL ORIGINAL
VMI	NAT. GAS	NO. 6 OIL	COAL ORIGINAL
VPI & SU	COAL(ORIG)	NAT. GAS/NO.6 OIL	TURBINE GENERATOR COGEN
VA STATE UNIV	COAL	NO. 6 OIL	COAL ORIG; OIL ADDED
WILLIAM & MARY	NAT. GAS	NO. 6 OIL	COAL ORIGINAL (?)

MENTAL HEALTH AND MENTAL RETARDATION

CATAWBA	COAL	NONE	ORIGINAL
CENTRAL VA. T.C.[b-]	~~COAL~~ ORIG.	NO. ~~6~~ *2 OIL*	*DESIGN IN PROGRESS*
DeJARNETTE	COAL	NO. 4 OIL	COAL ORIG; OIL ADDED
EASTERN STATE [b-]	~~COAL~~	~~NONE~~ *2 OIL*	*DESIGN IN PROGRESS*
PIEDMONT [a-]	SAWDUST	~~COAL~~ *2 OIL*	COAL ORIG; SAWDUST ADDED *DESIGN IN PROGRESS*
SOUTHSIDE SUPRT UNT	COAL	NONE	COAL ORIGINAL
SOUTHWEST VA.MHI	NAT. GAS	NO. 2 OIL	COAL ORIGINAL
WESTERN STATE (NEW)	NAT. GAS	NO. 6 OIL	ORIGINAL

a- Convert coal to No. 2 fuel oil.

b- Convert coal to natural gas; fuel oil backup.

c- New plants: planning under way; design in progress.

COMMONWEALTH of VIRGINIA

COAL AND ENERGY COMMISSION
General Assembly Building

910 CAPITOL STREET
SECOND FLOOR
RICHMOND, VIRGINIA 23219

IN RESPONSE TO
THIS LETTER TELEPHONE
(804) 786-3591

December 21, 1994

Ronald J. Angelone, Director
Department of Corrections
6900 Atmore Drive
P.O. Box 26963
Richmond, Virginia 23261

Re: Coal use at new and existing Department of Corrections facilities

Dear Mr. Angelone:

I am writing to you as Chairman of the Virginia Coal and Energy Commission's Coal Subcommittee. The Subcommittee recently met in Abingdon to discuss Virginia's struggling coal industry. As part of our review, we received information about the use of coal as a primary fuel source at Virginia state facilities.

We were astonished to learn that the new Red Onion Mountain maximum security facility to be constructed in the heart of Southwest Virginia's coal country will be fueled by natural gas under its current design. If this is true, it would fly in the face of a long-standing policy to promote the use of Virginia coal in state facilities. Moreover, such a decision would directly contravene the provisions of Senate Joint Resolution 31 of 1988 (copy attached) which provides, in pertinent part:

RESOLVED by the Senate, the House of Delegates concurring, That the Department of Corrections is requested to use coal for its raw energy source at all future correctional facilities.

The use of coal in Virginia state facilities helps preserve jobs in the coalfields, and it makes good fiscal sense, too. The Subcommittee has learned, for example, that coal-fired plants typically have lower costs per BTU than natural gas or oil, and that coal-fired plants' life-cycle costs (the cost of owning, operating and maintaining a plant over its life expectancy) are likely to be lower than plants using other fuels. At a time when the Commonwealth's resources are strained, the favorable costs associated with coal should weigh heavily in the design of new facilities' heating plants—or in replacing aging plants at existing facilities.

As we understand it, the Red Onion Mountain facility is still on the drawing boards. Accordingly, we encourage you to consider the beneficial fiscal and economic effects of installing a coal-fired heating plant at this facility. Thank you for your consideration.

Very truly yours,

Jack Reasor

Jackson E. Reasor, Jr.
Member, Senate of Virginia

cc: The Honorable George F. Allen
Members, Virginia Coal and Energy Commission

E:\DLSDATA\BUSJURIS\PERMCOMM\CL_ENRGY\CORR.DOC

SENATE JOINT RESOLUTION NO. 31

Requesting the Department of Corrections to use coal at all of its correctional facilities.

Agreed to by the Senate, February 15, 1988
Agreed to by the House of Delegates, March 2, 1988

WHEREAS, the economy of Southwest Virginia is very dependent upon the sale of coal extracted from mines located in that area; and

WHEREAS, § 11-47 of the Code of Virginia provides that in the case of a tie bid, a preference be given to those goods produced in Virginia; and

WHEREAS, the Virginia Coal and Energy Commission recommended in its 1987 report that only Virginia coal be purchased for use in state facilities; and

WHEREAS, many of the Commonwealth's correctional facilities are already burning coal for their energy needs; and

WHEREAS, the Coal and Energy Commission recommends that the Department of Corrections use coal for its raw energy source at all future correctional facilities; now, therefore, be it

RESOLVED by the Senate, the House of Delegates concurring, That the Department of Corrections is requested to use coal for its raw energy source at all future correctional facilities; and, be it

RESOLVED FURTHER, That the Clerk of the Senate shall transmit a copy of this resolution to the Director of the Department of Corrections.

SENATE JOINT RESOLUTION NO. 32

Establishing a joint subcommittee to study pollution from untreated sewage discharges and failing septic tanks.

Agreed to by the Senate, March 11, 1988
Agreed to by the House of Delegates, March 9, 1988

WHEREAS, the Commonwealth's waters constitute one of its most precious natural resources; and

WHEREAS, these waters are used to supply drinking water, to support fish and other forms of aquatic life, to provide recreational opportunities, and to foster economic development; and

WHEREAS, it is important that these waters be protected, so that their natural quality can be maintained, or where necessary, restored; and

WHEREAS, state programs already regulate and provide support for discharges from municipal and industrial treatment plants into these state waters; and

WHEREAS, some areas of the state, especially southwest Virginia, continue to suffer the effects of failing septic tanks or sewage discharges that go from individual family homes

COMMONWEALTH of VIRGINIA

Department of Corrections

RON ANGELONE
XXXXXXXXXXXXXXY
DIRECTOR

P. O. BOX 26963
RICHMOND, VIRGINIA 23261
(804) 674-3000

February 16, 1995

The Honorable Jackson E. Reasor, Jr.
Member, Senate of Virginia
Coal and Energy Commission
General Assembly Building
910 Capital Street, Second Floor
Richmond, VA 23219

Ref.: Coal use at new and existing Department of Corrections facilities
Red Onion Mountain Maximum Security Institution
Chapter 878 (1992 Va. Act of Assembly)
Project # 799 15194

Dear Senator Reasor:

Thank you for your interest in the fuel selection for the above referenced project. In the Fuel Selection Analysis[1], done by the Architect/Engineer firm designing this project, the fuel selection was limited to locally available bituminous coal, Number 2 fuel oil, and natural gas. Liquid propane and imported anthracite coal were not considered.

The following excerpt is taken from the executive summary of the study, Fuel Selection Analysis;

> "the Red Onion Mountain Correctional Facility would be best served by utilizing natural gas as the primary heating fuel based on a twenty year life cycle cost analysis. The natural gas heating plant proved to be the superior system based on the low heating plant first cost, low annual operating and maintenance cost and average fuel cost. The initial cost of the

> coal fired boiler system and the associated upkeep could not make it competitive, despite its low fuel cost. The significant fuel oil cost proved to be the undoing of the oil fired boiler system. The natural gas fired boiler system would have proved significantly more attractive if it was not for the initial five mile long, 4 inch gas line that is required to be brought to the site. On a further note, a life cycle cost was performed for the natural gas fired boilers including a standby fuel oil system and still proved to be the most cost effective system."[1]

> "Based on the 20 year life cycle cost analysis, it is our recommendation that the primary fuel for the Red Onion Mountain Correctional Facility be natural gas, and Number 2 fuel oil be utilized as an emergency standby fuel source."[1]

Gas for the Red Onion Mountain Maximum Security Institution will be supplied by Equitable Resources Exploration company and comes from wells in Dickenson county which means most of the payment for the resource and salaries to collect the resource will return to Dickenson county.

As I understand the reason for passing Senate Resolution 31, it was to urge the Department to use coal, an abundant Virginia resource mined by Virginians, wherever it is cost effective or reasonably close in cost effectiveness. In this case, natural gas was considerably more cost effective and it was a coal field product from the county in which the prison is to be located. To use it seemed in keeping with both the letter and spirit of Senate Resolution 31. We at the Department of Corrections will do all in our power to comply with this resolution.

---

[1] Fuel Selection Analysis - dated. July 14, 1994, by DMJM (Architects and Engineers) and HC Yu & Associates (Consulting Engineers)

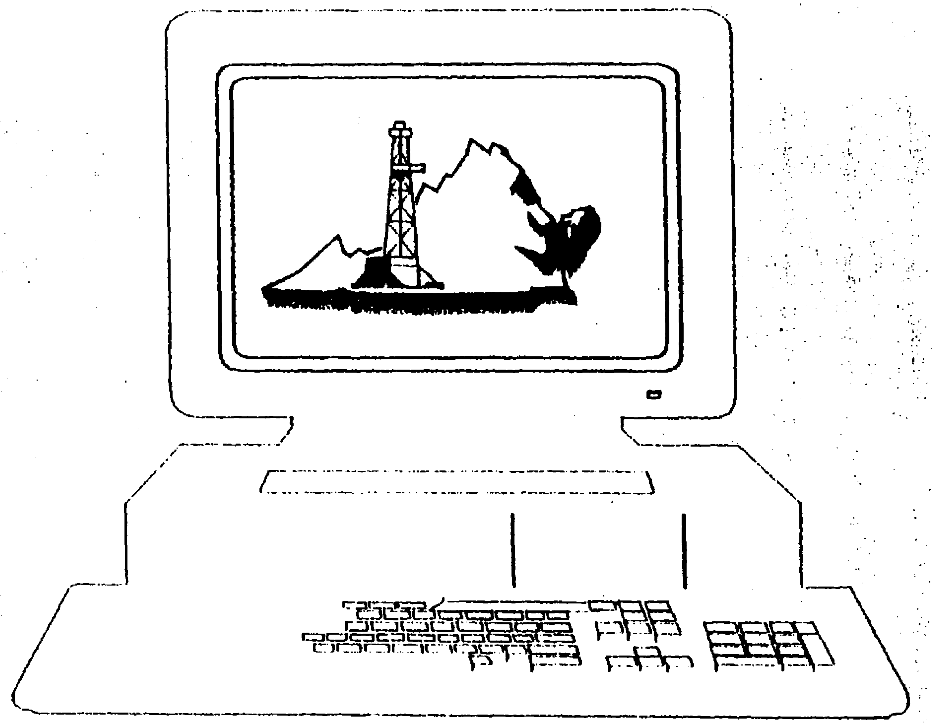
I trust that this information will answer your concern for using gas as the primary fuel to be used for the Red Onion Mountain Maximum Security Institution. If you have any questions, please contact either me or Russ Boraas, our Director of Planning and Engineering (804) 674-3102.

Sincerely,

Ron Angelone
Director

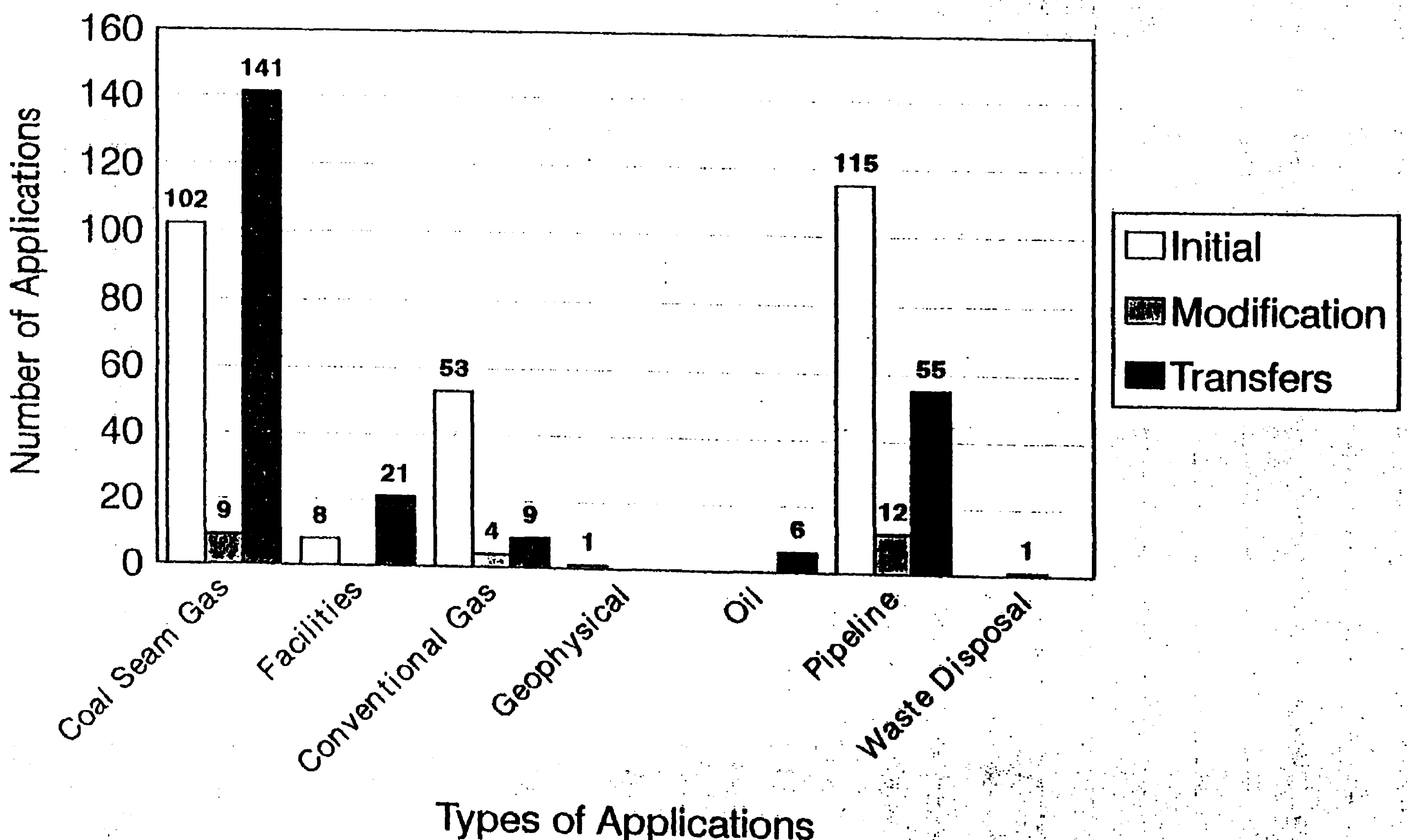
cc: File: 799 15194-430
Russ Boraas

Department of Mines, Minerals and Energy



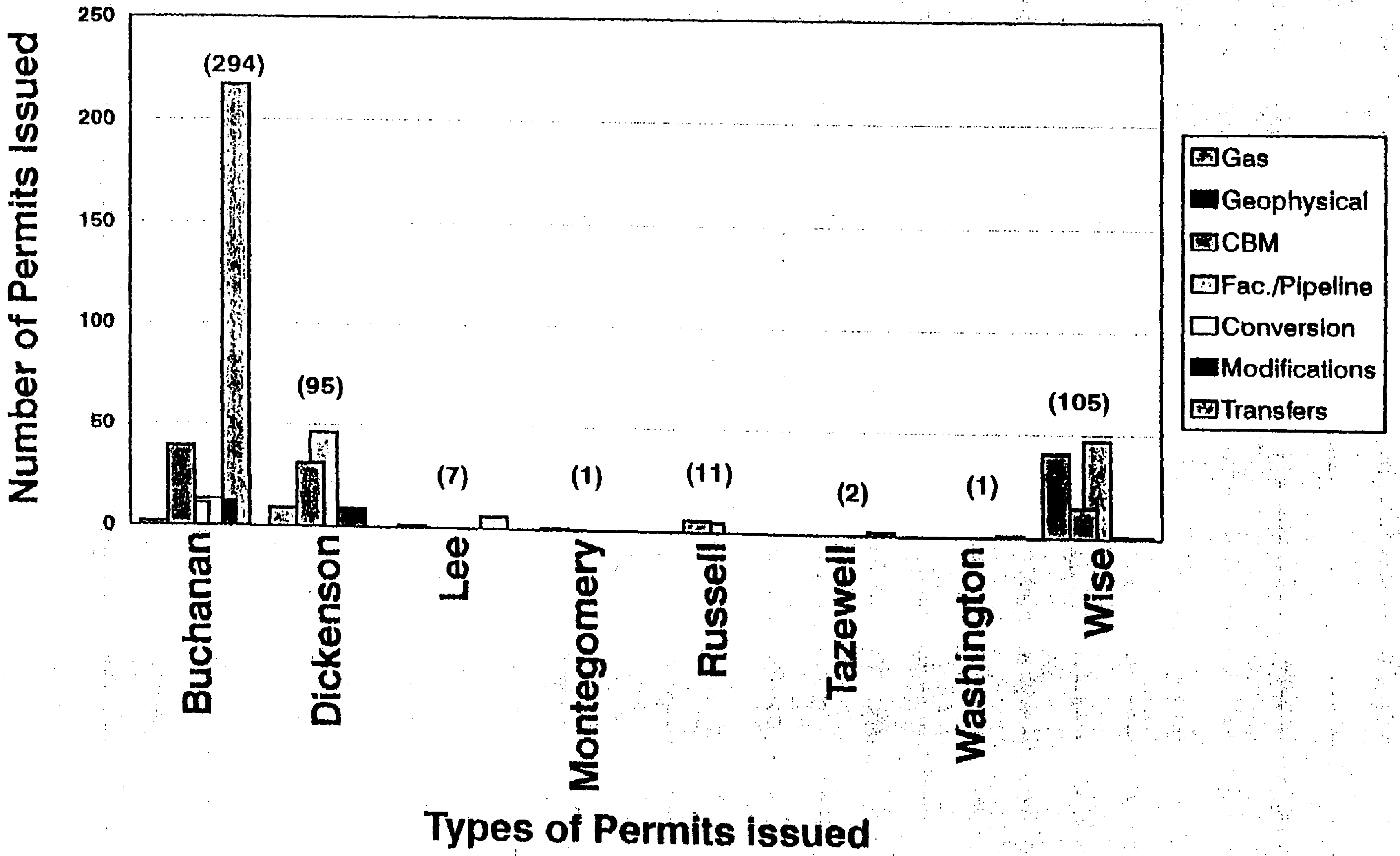
1993 Gas and Oil Report

Applications



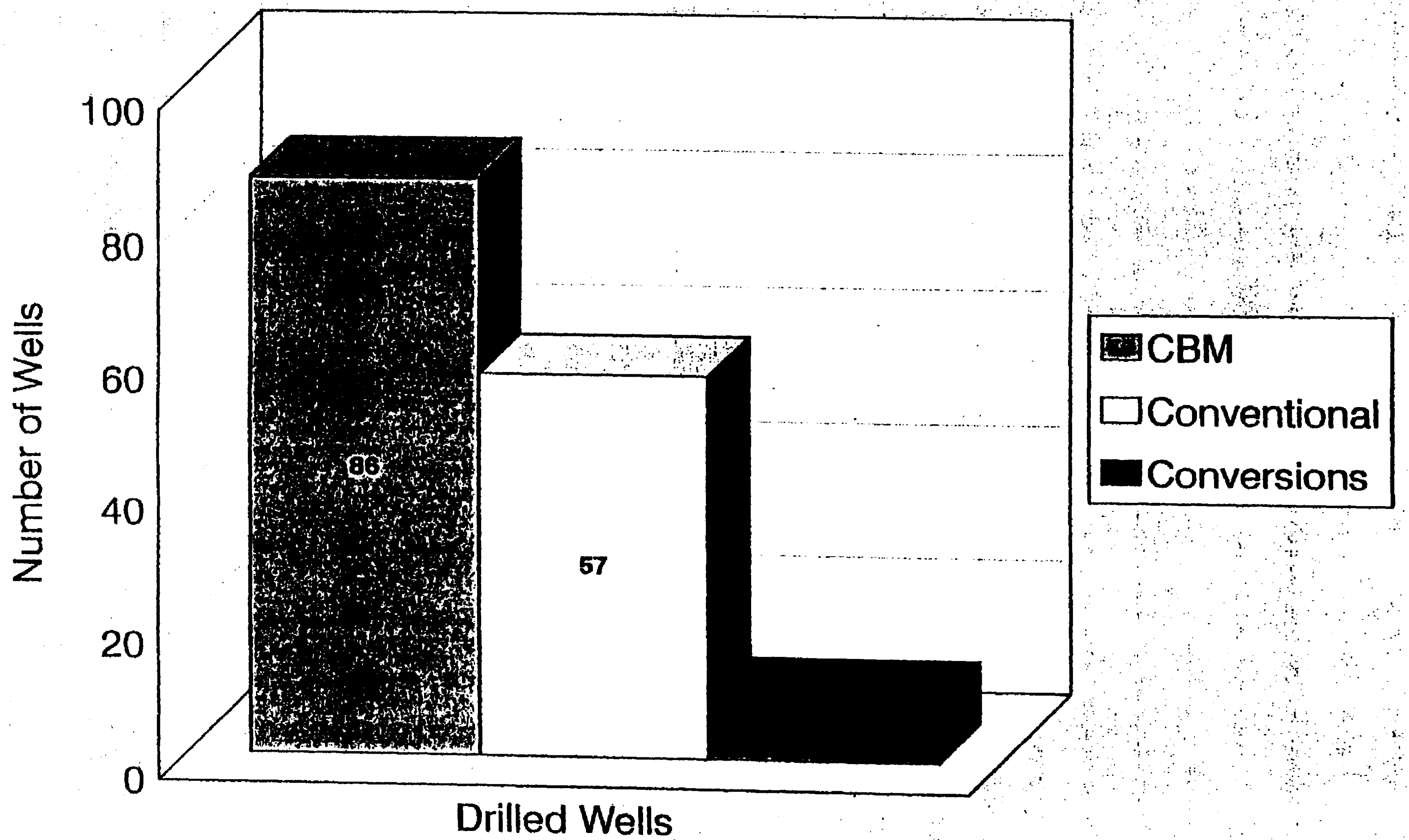
Total Applications - 537

Permits Issued



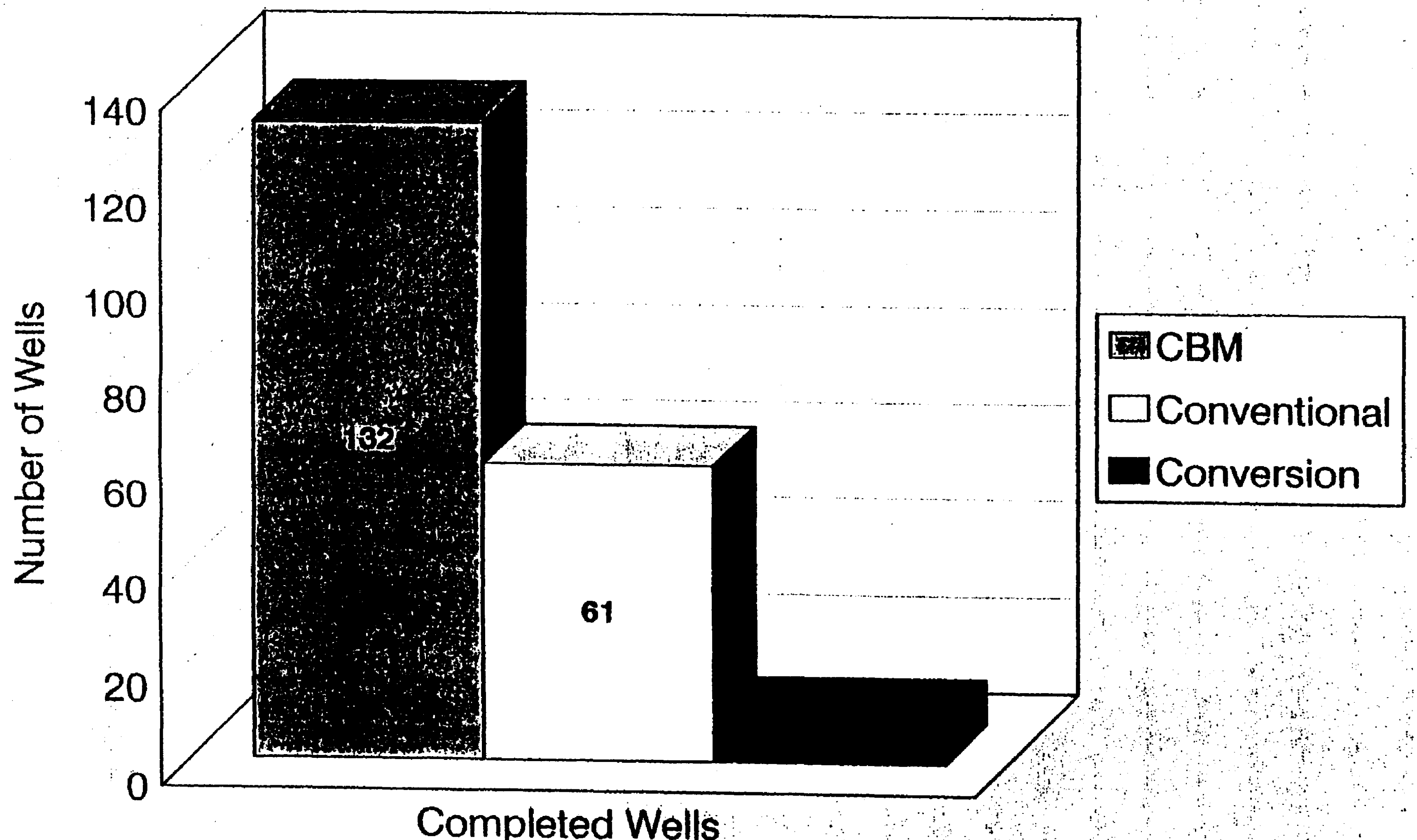
Total Permits Issued - 516

Drilling Summary



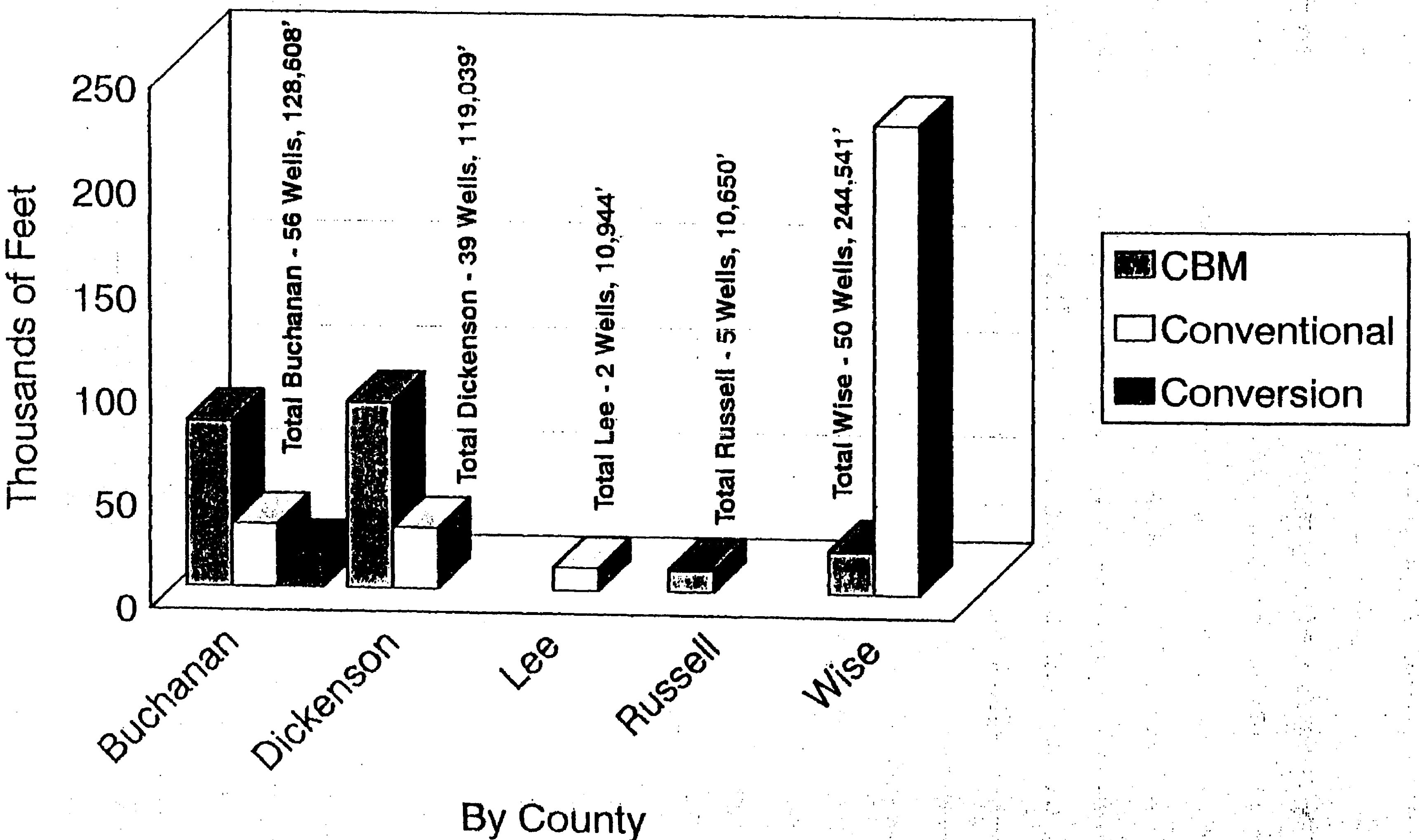
Total Wells Drilled - 152

Completion Summary



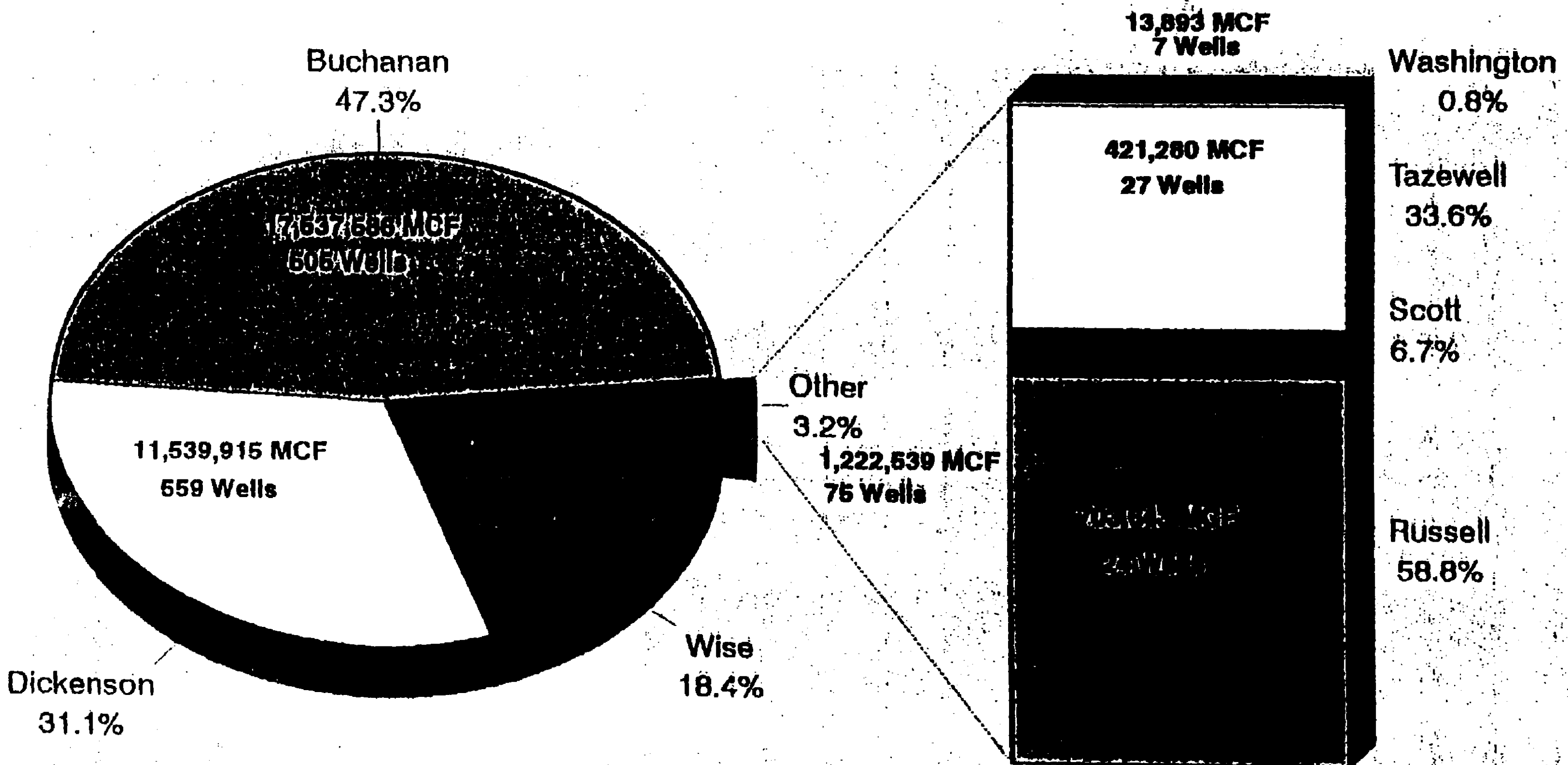
Total Wells Completed - 152

Drilled Footage



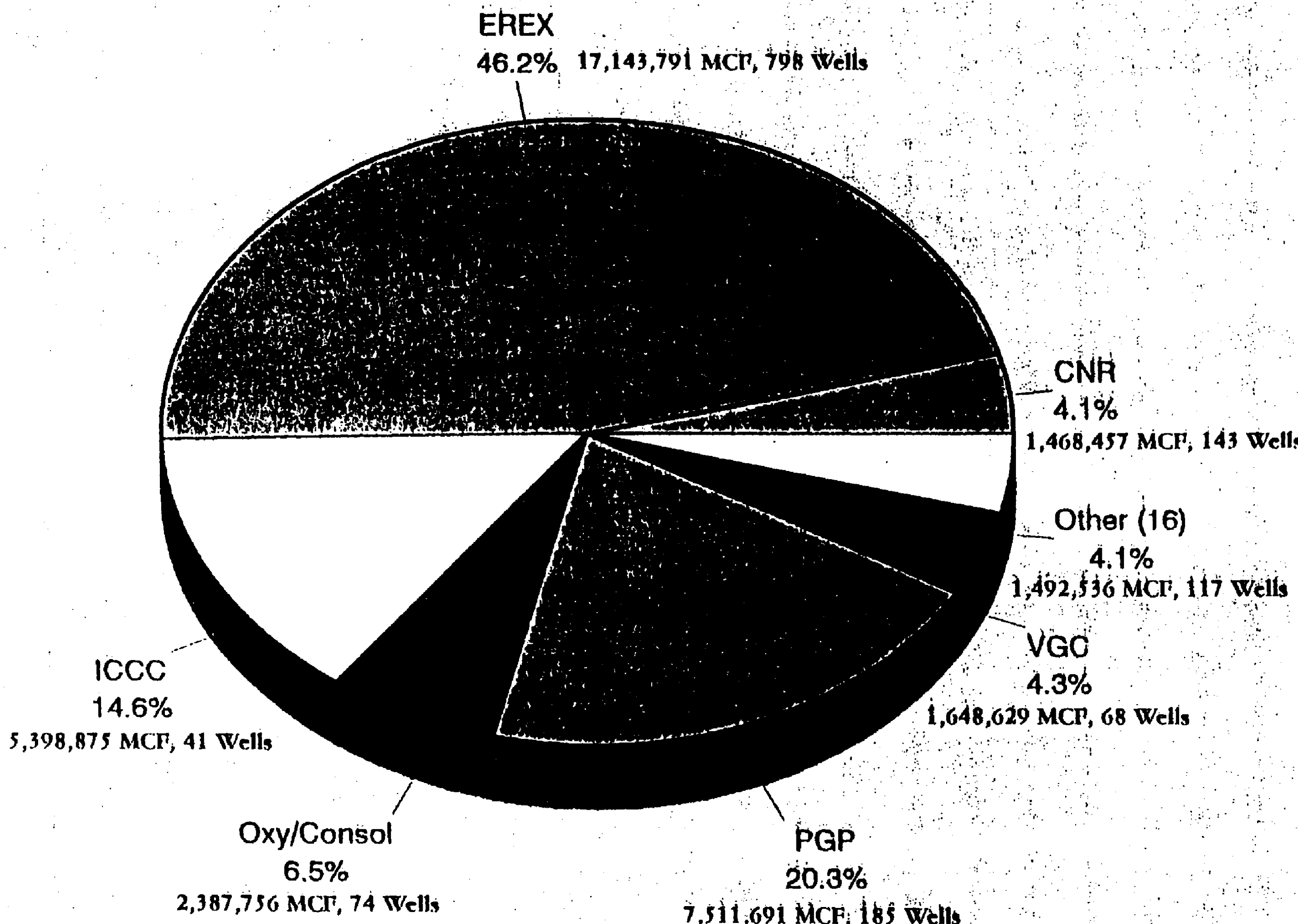
Total Footage including Conversion Footage - 513,782'
Average Footage CBM - 2,305'
Average Footage Conventional - 5,173'

Gas Production by County



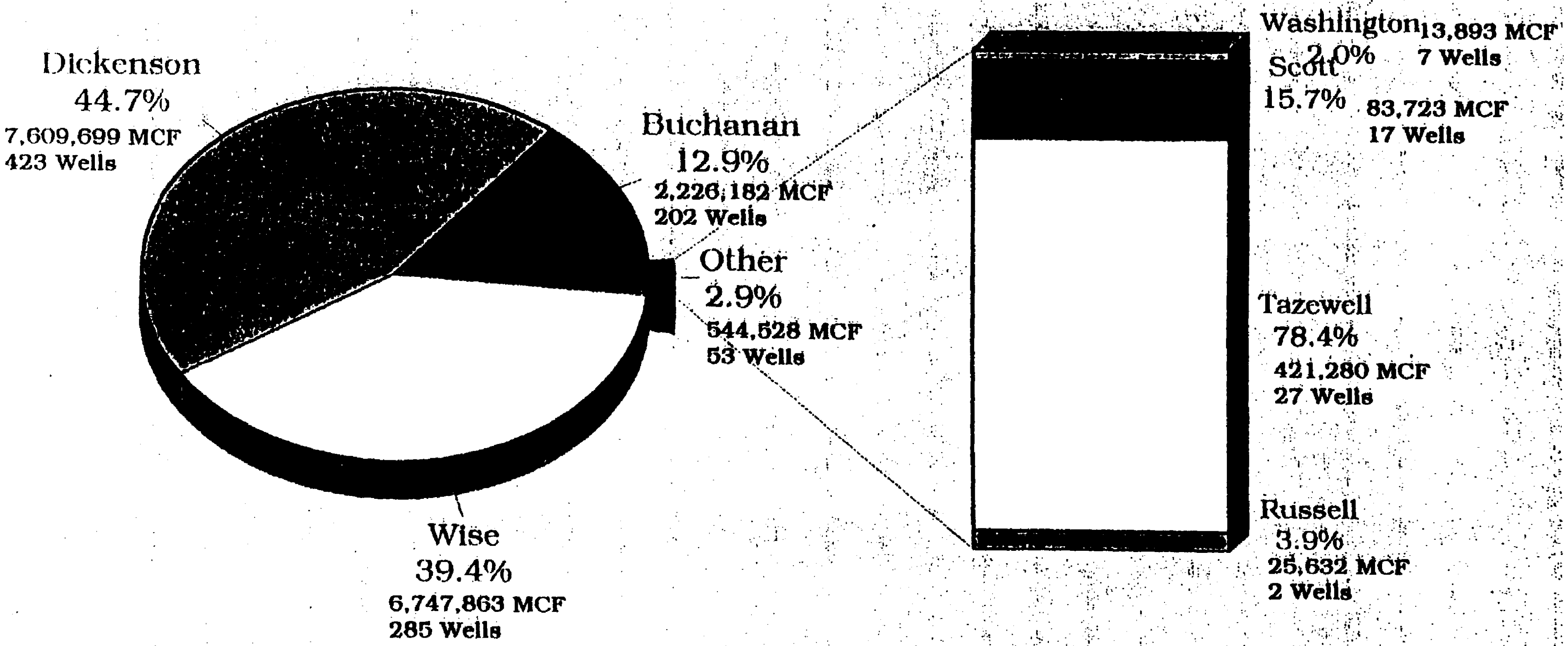
Total State Production - 37,051,735
Total Producing Wells - 1426

Gas Production by Operator

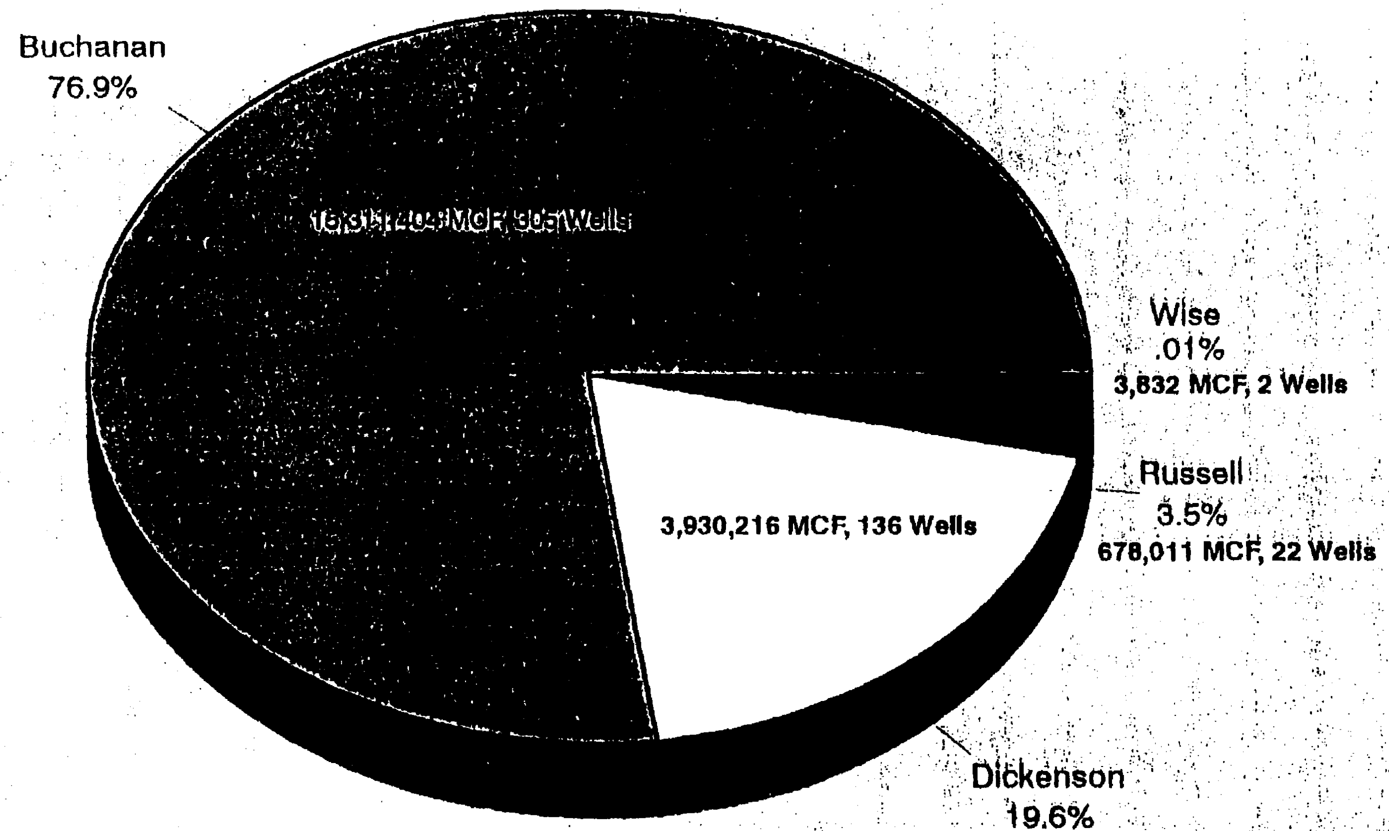


Total Production of Gas - 37,051,735 MCF
Total Producing Wells - 1426
Average Price of Gas - $2.29 per MCF

Conventional Gas Production by County



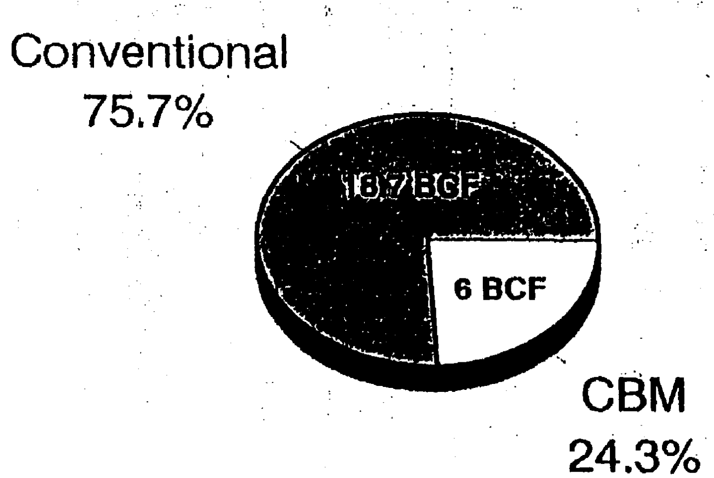
Coalbed Methane Production by County



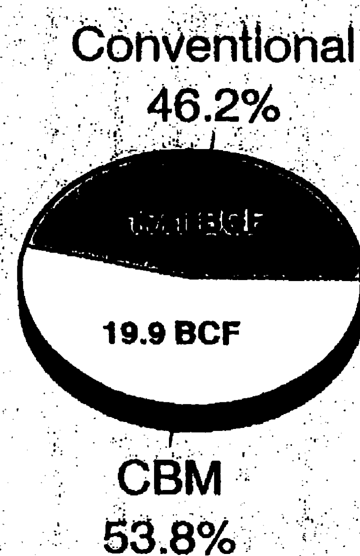
Total Production - 19,923,463 MCF
Total Producing Wells - 465

Yearly Production Comparison by Type of Production
1992 vs. 1993

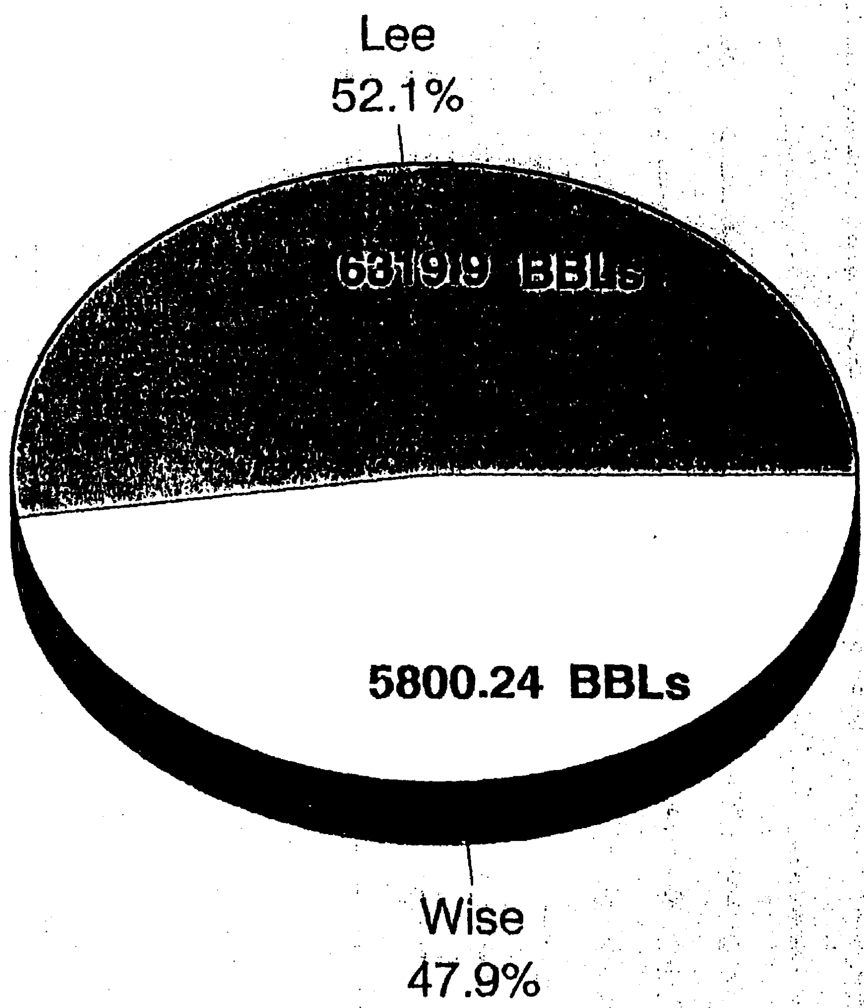
1992 Production
24.7 BCF



1993 Production
37 BCF

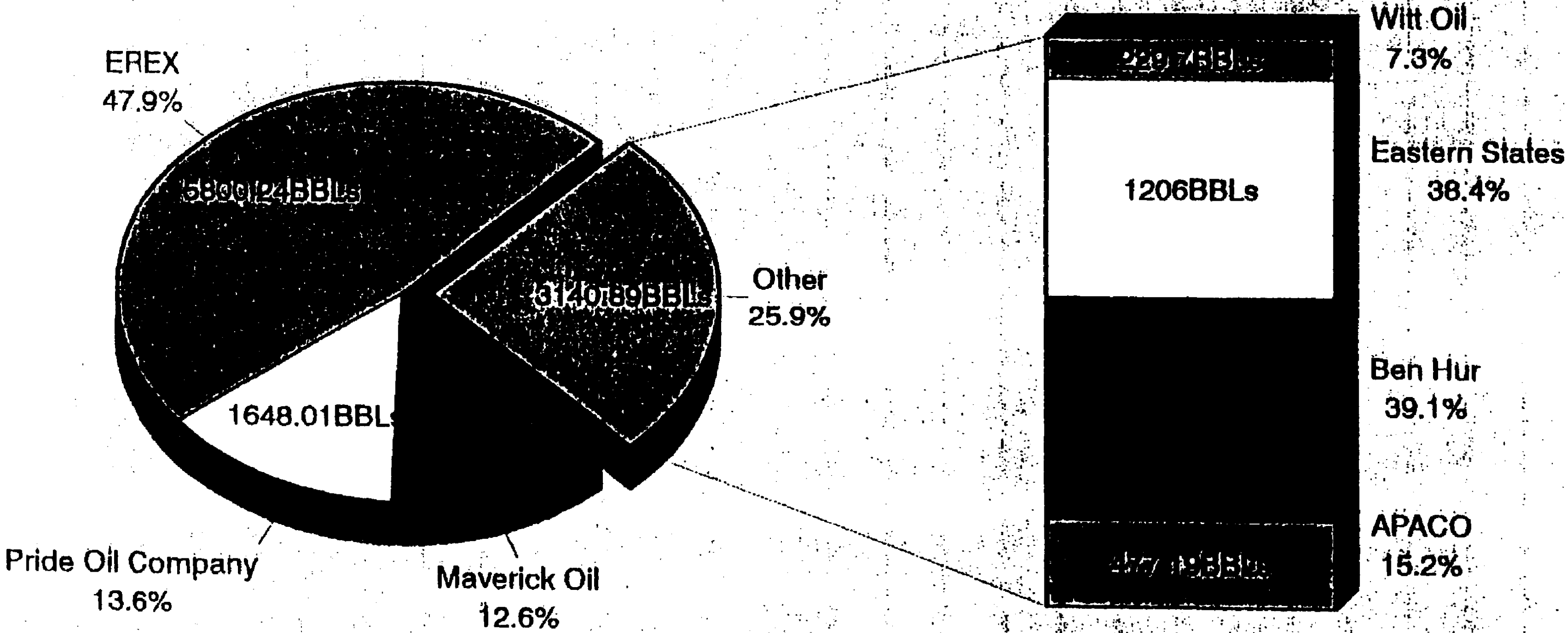


Crude Oil Production by County



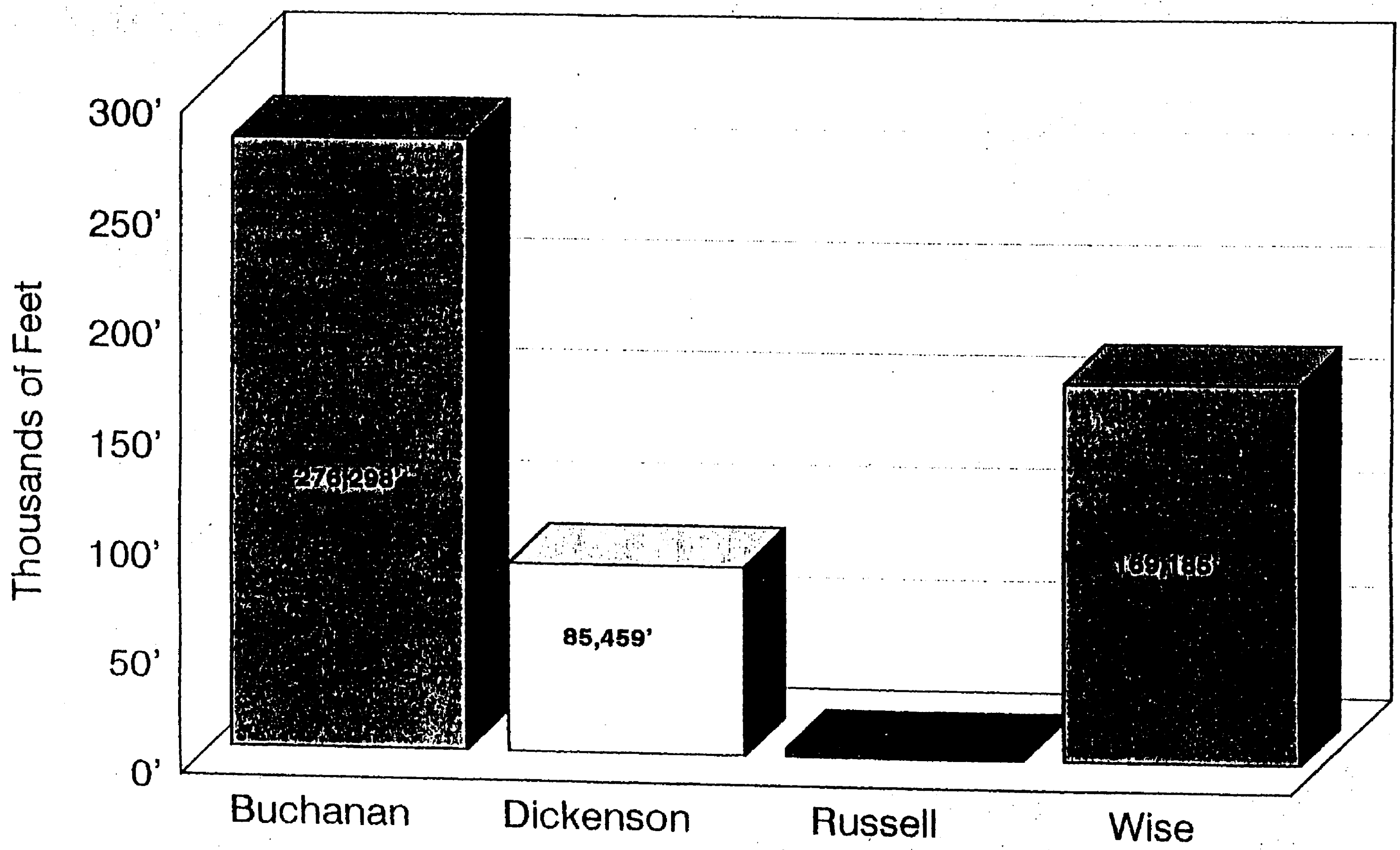
Total Production - 12,120.14 BBLs
Total Wells - 50

Crude Oil Production by Company



Average Price of Crude Oil - $16.21

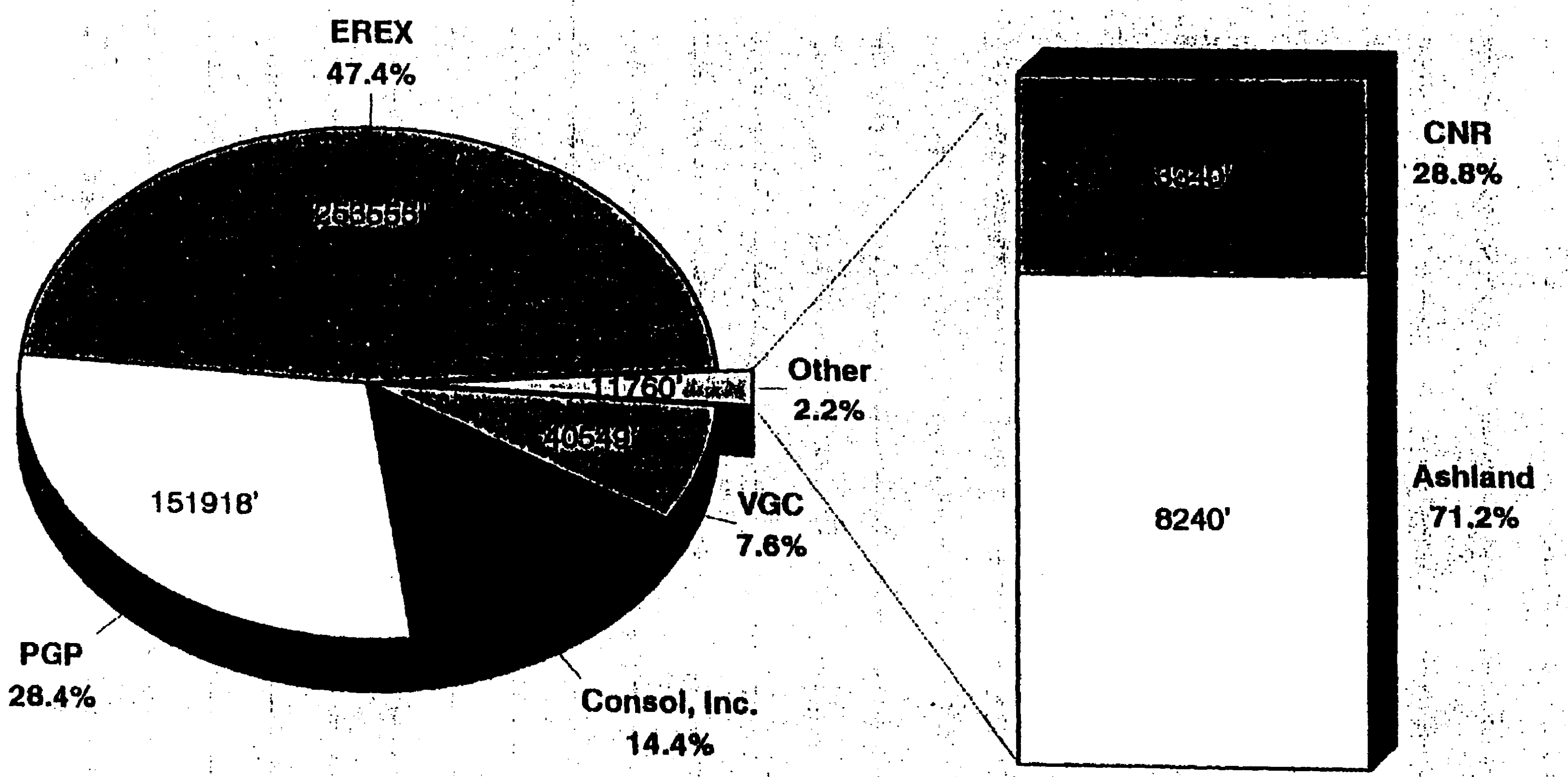
Pipeline Construction by County

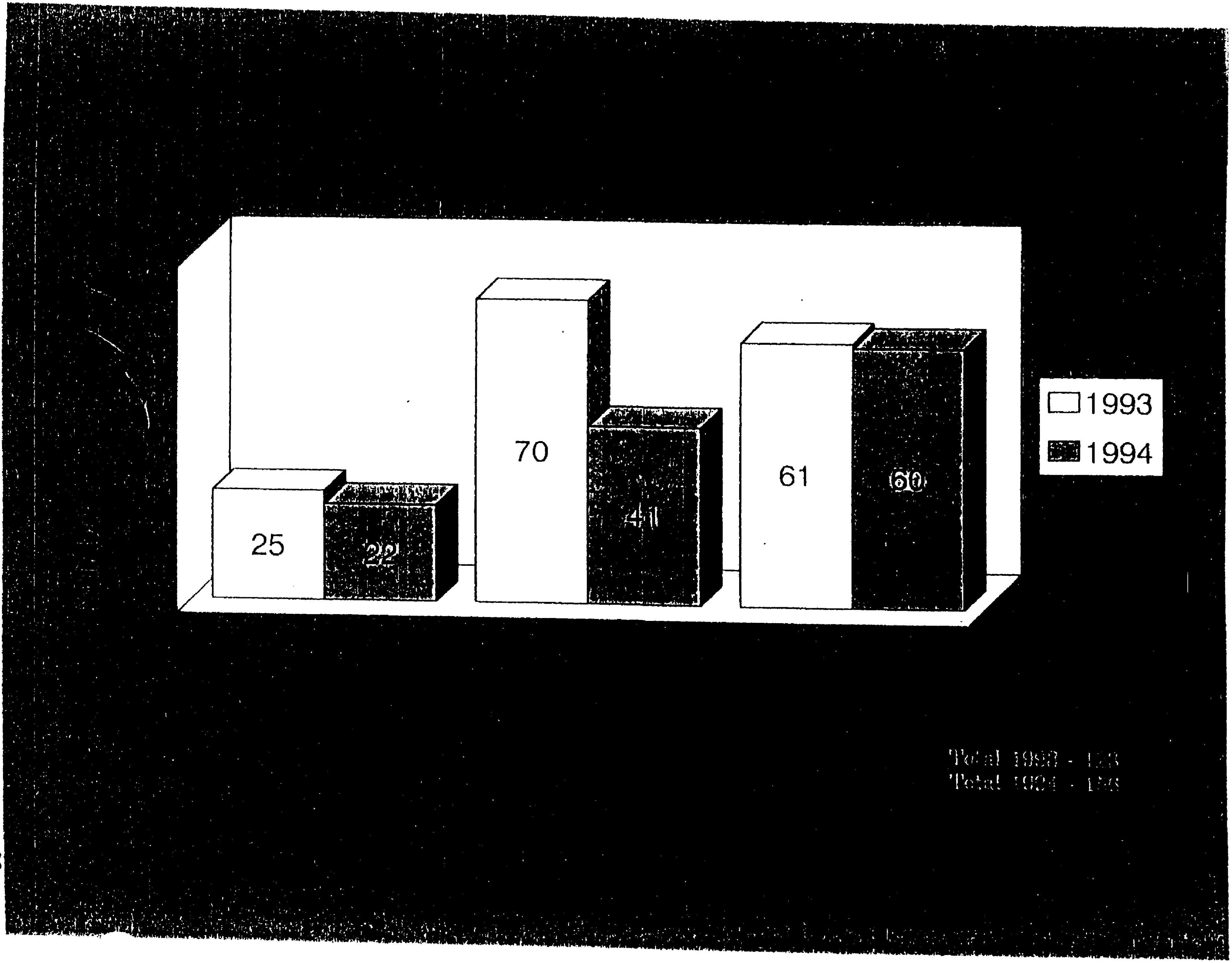


Total Footage Permitted 534,953'

Total Footage for State as of 1/1/94 - 7,957,757.5' or 1,507.14 Miles

Pipeline Construction by Operator




1993
1994
25
22
70
41
61
60
Total 1993 -
Total 1994 -

PRODUCTION COMPARISON
FIRST SIX MONTHS
1993 - 1994

1993 (ESTIMATED)

COALBED METHANE	- 7,969,385 MCF
CONVENTIONAL GAS	- 6,851,308 MCF

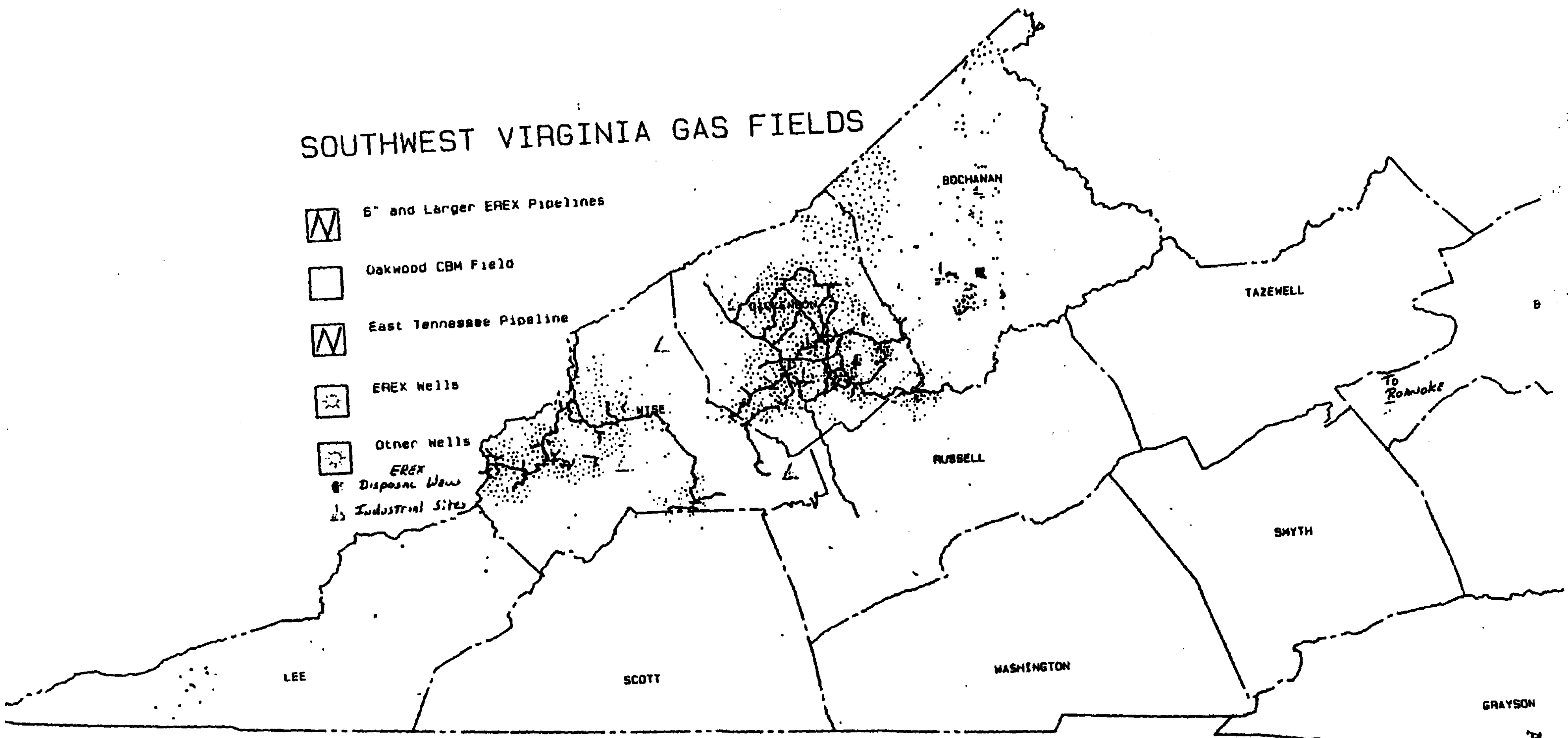
TOTAL GAS PRODUCED - 14,820,693 MCF

1994

COALBED METHANE	- 12,077,768 MCF
CONVENTIONAL GAS	- 10,351,674 MCF

TOTAL GAS PRODUCED - 22,429, 442 MCF

60% OF THE TOTAL GAS PRODUCED IN 1993 HAS BEEN PRODUCED IN THE FIRST SIX MONTHS OF 1994.


SOUTHWEST VIRGINIA GAS FIELDS
6" and Larger EREX Pipelines
Oakwood CBM Field
East Tennessee Pipeline
EREX Wells
Other Wells
EREX
Disposal Wells
Industrial Sites
BUCHANAN
WISE
TAZEWELL
To Roanoke
RUSSELL
SMYTH
LEE
SCOTT
WASHINGTON
GRAYSON

APPENDIX L

Commonwealth of Virginia
Office of the Governor

Executive Order

NUMBER TWENTY-SEVEN (94)

CONTINUING AND EVALUATING THE VIRGINIA ENERGY PLAN

The Virginia Energy Plan was initiated in September 1991 to provide for a sustainable energy future for Virginia by improving energy efficiency, increasing energy conservation, and advancing renewable and alternative energy technologies.

The Plan was implemented by Executive Order Number Thirty-Seven (91), which expires June 30, 1994. This Executive Order continues the Virginia Energy Plan in effect during the pendency of an ongoing evaluation of the Plan to identify changes to improve its effectiveness and efficiency.

A comprehensive statewide approach is critical to Virginia's energy conservation. Such an approach has the potential to: reduce consumption of energy resources; extend the use of coal, oil and gas reserves; improve energy efficiency; reduce environmental impacts; preserve natural resources; and secure independence from foreign oil. The Virginia Energy Plan encompasses a statewide program that focuses on energy efficiency and conservation through production, management planning, awareness, transportation, and fuel alternatives.

Accordingly, by virtue of the authority vested in me as Governor under Article V of the Constitution of Virginia and under the laws of the Commonwealth, including but not limited to Chapter 5 of Title 2.1 of the *Code of Virginia*, and subject to my continuing and ultimate authority and responsibility to act in such matters, I hereby direct the Governor's Secretaries and all executive branch agencies to continue implementation of the Virginia Energy Plan consistent with their statutory authority in order to secure an energy-efficient future for Virginia.

The Virginia Energy Plan is applicable to all state agencies to the extent it is consistent with the statutory authority of those agencies. I hereby assign specific responsibilities for the implementation of the Virginia Energy Plan as follows:

I. Responsibilities of the Secretary of Commerce and Trade

The Secretary of Commerce and Trade shall be responsible for providing guidance and direction for energy policy and conservation planning, shall lead the evaluation of the Virginia Energy Plan, and shall recommend improvements thereto to the Governor. Specifically, the Secretary of Commerce and Trade shall:

A. Comprehensively integrate energy conservation and efficiency policies into the operations and programs of state government through the Virginia Energy Plan;

B. Coordinate with other Secretaries where activities and programs are shared among secretarial areas;

C. Provide general guidance to the Department of Mines, Minerals and Energy and report on accomplishments under the Virginia Energy Plan to the Governor;

D. Approve annual updates and any modifications to the Virginia Energy Plan to maintain consistency with the policy directives of the Governor and to enhance the accomplishment of the goals and objectives;

E. Resolve differences between participating agencies when agreement cannot be reached among them;

F. Serve as liaison with Virginia businesses to obtain their expertise, assistance and cooperation in advancing energy efficiency and alternative fuels in Virginia; and

G. Conduct a thorough evaluation of the Virginia Energy Plan to determine changes to improve its effectiveness and efficiency.

II. Responsibilities of the Department of Mines, Minerals and Energy

The Department of Mines, Minerals and Energy (DMME) shall be responsible for coordinating and implementing the Virginia Energy Plan.

Specifically, DMME shall:

A. Review, revise and maintain the Virginia Energy Plan through a collaborative process among state agencies;

B. Execute the strategies designated to it;

C. Draw on expertise of other agencies, where appropriate, to ensure the successful execution of the Virginia Energy Plan strategies;

D. Develop an energy planning process and coordinate the development of an energy management plan for each agency, based on the Virginia Energy Plan; and

E. Provide guidance and training to other agencies, when needed, to execute the Virginia Energy Plan successfully.

III. Responsibilities of All Executive Branch Agencies

To accomplish the goals, objectives, and strategies of the Virginia Energy Plan, each executive branch agency and institution shall:

A. Execute the strategies designated to the agency or institution in the Virginia Energy Plan;

B. Designate an energy manager(s) and authorize staff involvement in the accomplishment of the Virginia Energy Plan, including participation in task forces, training, plan development, and plan execution;

C. Develop an energy management plan consistent with the process coordinated by DMME;

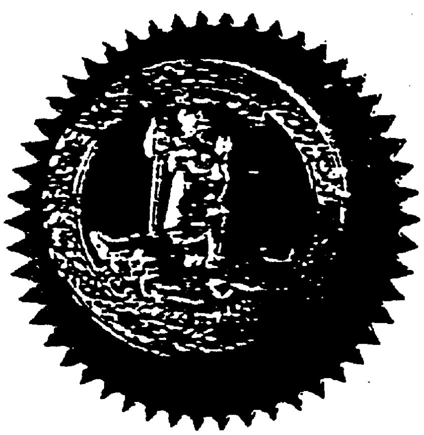
D. Implement the energy management plan in an orderly and timely manner and undertake modification of internal agency operations and programs consistent with the goals and objectives of the Plan and state law; and

E. Monitor and report progress on accomplishing the energy management plan to DMME as requested.

This Executive Order rescinds Executive Order Number Thirty-Seven (91), Virginia Energy Plan, issued by Governor Lawrence Douglas Wilder on September 18, 1991.

This Executive Order is effective upon its signing and shall remain in full force and effect until June 30, 1995, unless amended or rescinded by further Executive Order.

Given under my hand and under the Seal of the Commonwealth of Virginia this 30th day of June, 1994.



Governor

Attest:

Secretary of the Commonwealth

LOW INCOME HOME ENERGY ASSISTANCE PROGRAM

Submitted by Department of Social Services
Division of Benefit Programs
Bureau of Energy and Emergency Assistance

APPENDIX N

FUEL ASSISTANCE

HOUSEHOLDS SERVED

- TOTAL HOUSEHOLDS -- 124,568
- PERCENT CONTAINING
  ELDERLY ---- 30.9%
  DISABLED --- 21.6%
  CHILDREN --- 49.9%
- TOTAL PERSONS SERVED
  320,162
- 44.1% OF ELIGIBLES HAD
  INCOME LESS THAN $6,000

FY94

FUEL ASSISTANCE

HOUSING TYPES

HOMEOWNERS	32.8%
RENTERS	42.1%
RENTERS (HEAT INCLUDED)	1.0%
ROOMERS	.6%
SUBSIDIZED HOUSING	19.2%

HOMES HAVE BEEN WEATHERIZED 15.3%

FY95

CRISIS ASSISTANCE
HOUSEHOLDS SERVED

- HOUSEHOLDS SERVED -- 17,881
- PERCENT OF HOUSEHOLDS
  ELDERLY ---- 11.0%
  DISABLED ---- 14.7%
  CHILDREN ---- 62.8%
- TOTAL PERSONS SERVED
  52,142
- 20.3% OF ELIGIBLES HAD INCOME LESS THAN $6,000

FY94

CRISIS ASSISTANCE
SERVICES PROVIDED

	HHS SERVED	PAID AMT
Equipment Repairs	782	$ 111,855
Equipment Purchase	1,706	1,076,431
Pay Secondary Electricity	3,005	385,297
Security Deposits	761	100,577
Portable Space Heaters	10	1,266
Emergency Shelter	2	264
Heating Inspection	992	18,885
Supplemental Equipment	42	6,801
Maintenance	63	6,212
Primary Fuel (deliverable)	3,626	423,118
Primary Fuel (utilities)	6,694	975,070

		$ 3,105,776
Plus payments of deposit options		90,022

TOTAL EXPENDITURES		$ 3,195,798

FY94

BENEFIT DOLLARS

	FY94 ACTUAL	FY95 ESTIMATE
CRISIS	$ 3,195,798	$ 1,925,000
COOLING	563,085	000,000
FUEL	22,267,221	21,331,321
	$26,026,104	$23,256,321

.04% Reduction in Fuel Dollars
60% Reduction in Crisis Dollars

13% REDUCTION IN TOTAL BENEFIT DOLLARS

11/15/94

ENERGY ASSISTANCE PROGRAM
CHANGES

Crisis Assistance

Deleted the following types of service:

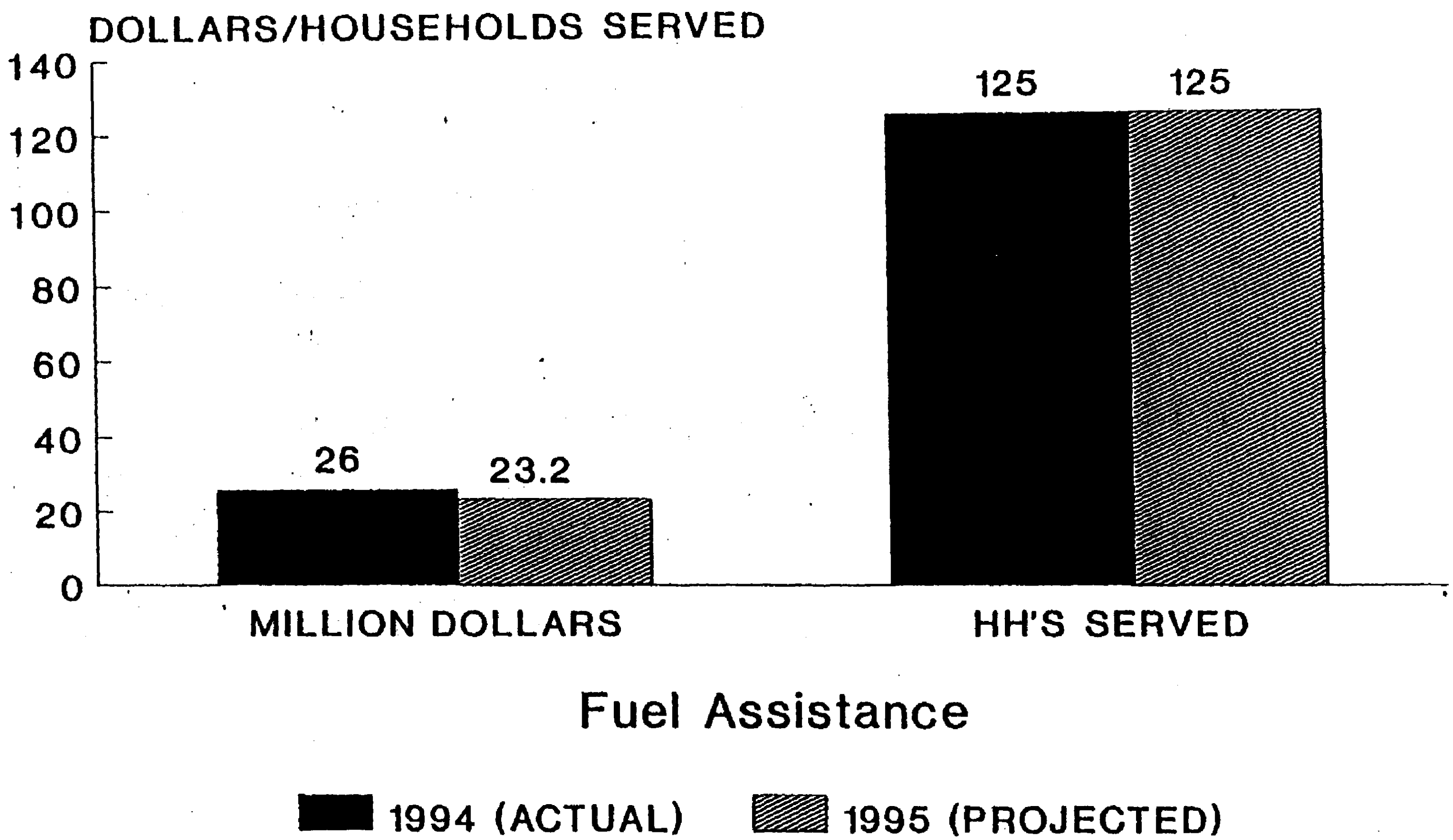
Payment of secondary electricity
Primary fuel
Only pay security deposit for primary fuel type

Cooling Assistance

Deleted the component

FY 95

COMPARISION
FY94 AND FY95*



WAP ELIGIBLE HOUSEHOLDS UNSERVED

1981 - June, 1994

- **Total Eligible - 293,824**

Source: 1990 Census and U.S. Department of energy

- **Total Served - 71,245 *or 24%***

Source: Reports to DOE

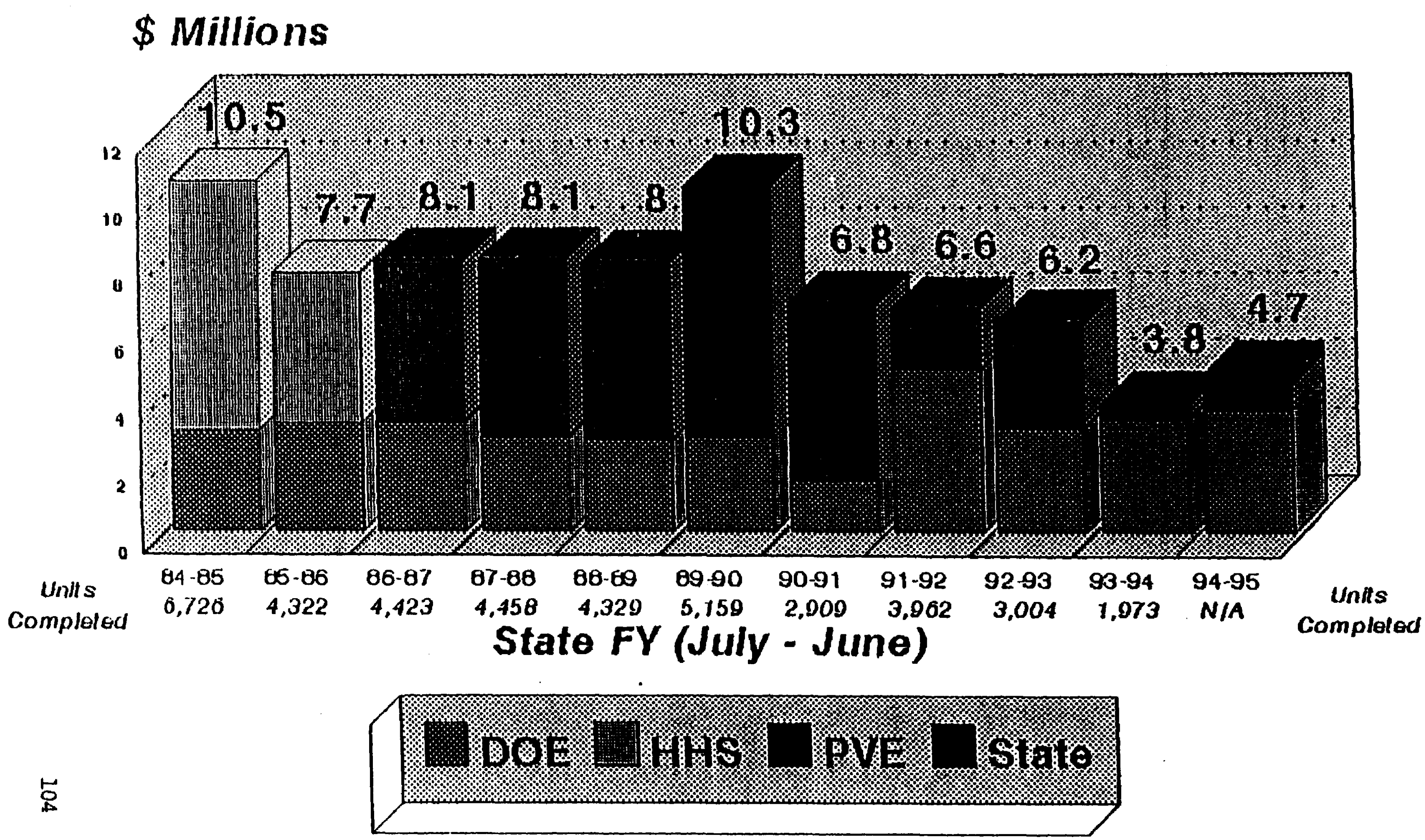
- **Total Unserved - 225,579 *or 76%***

★ Adjusted for eligible persons living in public housing.

APPENDIX O

APPROPRIATION PATTERNS

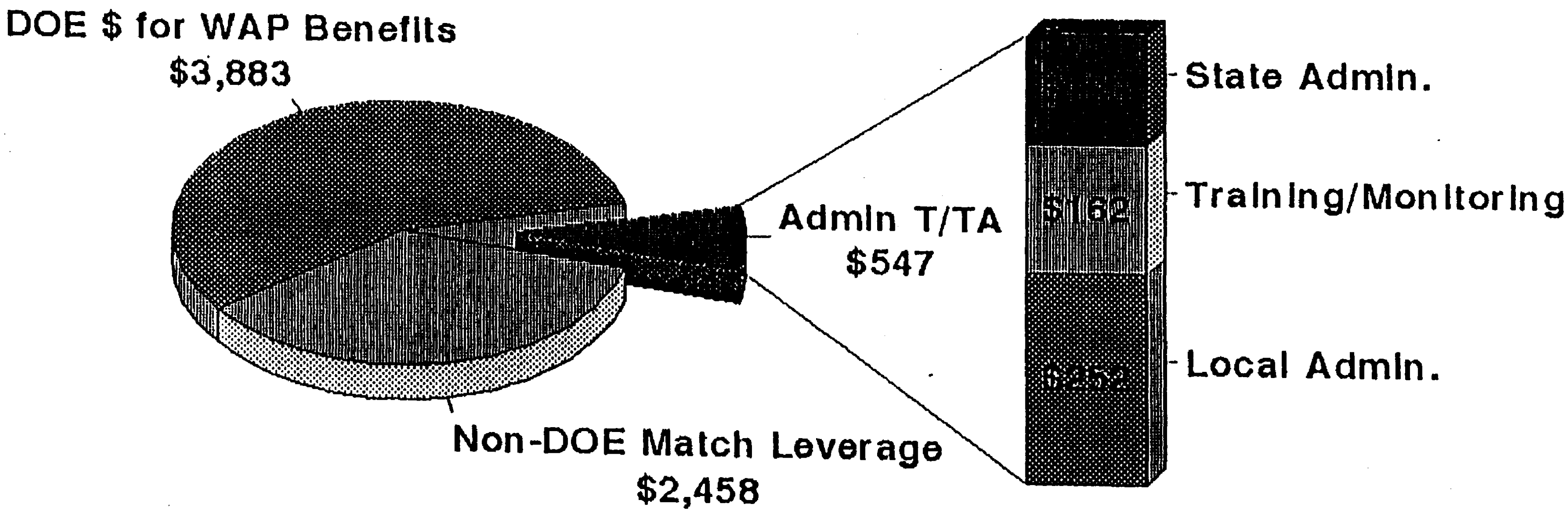
(Years 84-90 exclude any carryover from previous years)



$.85 of 92-93 carried forward into 93-94 to transition reduced funding

Total VA WAP Expenditures

July 1993 - June 1994



Total $6,888

Reported in $ Thousands

Metrics for Virginia WAP

July 1993 - June 1994

1,973 ***Dwellings weatherized***

34,725 Btu ***Energy saved***

$228,868 ***Dollars saved***

1,341 tons C ***Carbon reduction***

171 w/o utility impacts
97 w/utility impacts ***Job-years generated***

Metrics for Virginia WAP

July 1993 - June 1994

Dwellings weatherized:	1,973 dwellings
Annual energy saved:[1]	34,725 Million Btu
Annual dollars saved:[2]	$228,868
Carbon reductions:[3]	1,341 tons
Job-years generated:[4]	171 jobs without utility sector impacts 97 jobs with utility sector impacts

1. *Calculated using Oak Ridge Lab estimate of 17.6 Million Btu saved per weatherized dwelling; Virginia number may differ if energy profile is much different from Oak Ridge assumptions.*

2. *Calculated using Oak Ridge Lab estimate of $116 saved per dwelling weatherized; Virginia savings may differ if energy profile is much different from Oak Ridge assumptions.*

3. *Calculated using Virginia's energy (fossil fuel) profile for its residential consumers, with the exception of electricity, in which a national average profile was used. Carbon reductions were calculated based on the fossil fuel profile and the energy saved per dwelling.*

4. *A "job-year" represents one person working one standard work year. This number was calculated using a seven (7) sector national input/output table. Expenditures for weatherization projects are assumed to be equally divided between the Construction sector and the Manufacturing sector.*

The number of "jobs without utility sector impacts" represents direct and indirect job creation assuming that the utility industry is not affected by the reduced energy consumption. The number of "jobs with utility sector impacts" represents direct and indirect job creation assuming that reduced energy consumption also reduced the number of jobs in the utility sector and its supporting sectors.

This calculation assumes that the Virginia input/output table profile is similar to the national input/output table; if Virginia's table profile is substantially different; the results will be different.

1995 SESSION

LD4828176

HOUSE BILL NO. 2575

Offered January 23, 1995

A BILL to amend and reenact §§ 58.1-433 and 58.1-2626.1 of the Code of Virginia; to amend the Code of Virginia by adding in Article 13 of Chapter 3 of Title 58.1 a section numbered 58.1-439.1; and to amend and reenact the third enactment of Chapter 730 of the 1988 Acts of Assembly and the fourth enactment of Chapter 429 of the 1989 Acts of Assembly, relating to coal industry tax credits.

Patrons—Stump, Abbitt, Baker, Barlow, Cantor, Clement, Copeland, Cox, Cranwell, Croshaw, Crouch, Davies, Deeds, Diamonstein, Dudley, Fisher, Giesen, Hamilton, Hargrove, Howell, Ingram, Jackson, Johnson, Katzen, Kidd, Kilgore, May, McClure, Moore, Moss, Nelms, Nixon, O'Brien, Parrish, Phillips, Purkey, Reid, Reynolds, Robinson, Ruff, Sherwood, Thomas, Wagner, Wardrup, Way and Woodrum; Senators: Bell, Benedetti, Holland, R.J., Lambert, Reasor, Trumbo, Wampler and Woods

---

Referred to Committee on Finance

Be it enacted by the General Assembly of Virginia:

1. That §§ 58.1-433 and 58.1-2626.1 of the Code of Virginia are amended and reenacted and that the Code of Virginia is amended by adding in Article 13 of Chapter 3 of Title 58.1 a section numbered 58.1-439.1 as follows:

§ 58.1-433. Qualifying cogenerators and small power producers credit.

A. For all taxable years beginning on and after January 1, 1988, every cogenerator as defined in § 58.1-2600 shall be allowed a credit against the tax imposed by § 58.1-400 in the following amount: one dollar per ton for each ton of coal mined in Virginia, purchased by any cogenerator which sells electric power to a public service corporation in Virginia. *For taxable years beginning on and after January 1, 1998, the amount of the credit allowed by this subsection shall be one dollar and fifty cents per ton.*

B. For all taxable years beginning on and after January 1, 1989, every cogenerator as defined in § 58.1-2600 shall be allowed an additional credit against the tax imposed by § 58.1-400 in the following amount: one dollar per ton for each ton of coal mined in Virginia, purchased by any cogenerator which sells electric power to a public service corporation in Virginia. *For taxable years beginning on and after January 1, 1998, the amount of the credit allowed by this subsection shall be one dollar and fifty cents per ton.*

C. In order to receive the credit under this section the cogenerator shall include a certification from the coal producer that the coal was mined in Virginia *and that no other state coal tax credit with respect to such coal has been applied for or will be*. In no event shall the credit allowed hereunder exceed the total amount of tax liability of such cogenerator. Any tax credit not usable for the taxable year may be carried over to the extent usable for the next five succeeding taxable years or until the full credit is utilized, whichever is sooner.

§ 58.1-439.1. Coalfield Employment Enhancement Tax Credit.

A. For tax years beginning on and after January 1, 1996, any person who has an economic interest in coal mined in the Commonwealth shall be allowed a credit against the tax imposed by § 58.1-400 and any other tax imposed by the Commonwealth in accordance with the following:

1. For coal mined in Virginia and sold for ultimate consumption outside the United States, a credit in the amount of two dollars per ton.

2. For coal mined by underground methods, the credit amount shall be based on the seam thickness as follows:

Seam Thickness	Credit per Ton
Up to and including 28"	$4.20
More than 28" and up to and including 30"	3.60
More than 30" and up to and including 32"	3.00
More than 32" and up to and including 34"	2.40
More than 34" and up to and including 38"	1.80
More than 38" and up to and including 42"	0.80
Over 42"	0.40

The seam thickness shall be based on the weighted average isopach mapping of actual coal thickness by mine as certified by a professional engineer. Copies of such certification shall be maintained by the person qualifying for the credit under this section for a period of three years after the credit is applied for and received and shall be available for inspection by the Department of Taxation. The Department of Mines, Minerals and Energy is hereby authorized to audit all information upon which the isopach mapping is based.

3. For coal mined by surface mining methods, a credit in the amount of forty cents per ton;

B. In addition to the credit allowed in subsection A, for tax years beginning on and after January 1, 1996, any person who is a producer of coalbed methane shall be allowed a credit in the amount of five cents per million BTU's of coalbed methane produced in the Commonwealth against the tax imposed by § 58.1-400 and any other tax imposed by the Commonwealth on such person.

C. For purposes of this section, economic interest is the same as the economic ownership interest required by § 611 of the Internal Revenue Code which was in effect on December 31, 1977. A party who only receives an arm's length royalty shall not be considered as having an economic interest in coal mined in the Commonwealth.

D. If the credit exceeds the person's state tax liability for the tax year, the excess may be redeemable by the Tax Commissioner on behalf of the Commonwealth for ninety-five percent of the face value within ninety days after filing the return. If the Commonwealth does not redeem such excess amount, it shall be transferable by sale.

E. No person may utilize more than one of the credits on a given ton of coal described in subsection A. Persons who qualify for the credit may not apply such credit to their tax returns prior to January 1, 1999, and only one year of credits shall be allowed annually beginning in 1999.

§ 58.1-2626.1. The Virginia Coal Employment and Production Incentive Tax Credit.

A. For the tax years beginning on and after January 1, 1988, every corporation in the Commonwealth doing the business of furnishing water, heat, light or power to the Commonwealth or its citizens, whether by means of electricity, gas or steam shall be allowed a credit against the tax imposed by § 58.1-2626 in the following amount: one dollar per ton for each ton of coal contracted for purchase by such corporation after July 1, 1986, provided such coal was mined in Virginia as certified by the producer of such coal, *and such producer has certified that no other state coal tax credit with respect to such coal has been applied for or will be* . This credit shall be prorated equally against the corporation's estimated payments made in September and December and the final payment.

B. For tax years beginning on and after January 1, 1989, every corporation in the Commonwealth doing the business of furnishing water, heat, light or power to the Commonwealth or its citizens, whether by means of electricity, gas or steam shall be allowed additional credit against the tax imposed by § 58.1-2626 in the following amount: one dollar per ton for each ton of coal purchased by such corporation, provided such coal was mined in Virginia as certified by such seller, *and such seller has certified that no other state coal tax credit with respect to such coal has been applied for or will be*. The credit shall be prorated equally against the corporation's estimated payments made in September and December and the final payment.

C. For tax years beginning on and after January 1, 1991, every corporation in the Commonwealth doing the business of furnishing water, heat, light or power to the Commonwealth or its citizens, whether by means of electricity, gas or steam, shall be allowed additional credit against the tax imposed by § 58.1-2626 in the following amount: one dollar per ton for each ton of coal purchased by such corporation, provided such coal was mined in Virginia as certified by such seller, *and such seller has certified that no other state coal tax credit with respect to such coal has been applied for or will be*. The credit shall be prorated equally against the corporation's estimated payments made in September and December and the final payment.

2. That the third enactment of Chapter 730 of the 1988 Acts of Assembly is amended and reenacted as follows:

3. That the provisions of this act shall expire on December 31, ~~1996~~ *2005*.

3. That the fourth enactment of Chapter 429 of the 1989 Acts of Assembly is amended and reenacted as follows:

4. That the provisions of the act shall ex ire for all tax years beginning on and after January 1,

~~2001~~ *2005*.

Official Use By Clerks

Passed By The House of Delegates		Passed By The Senate	
without amendment	☐	without amendment	☐
with amendment	☐	with amendment	☐
substitute	☐	substitute	☐
substitute w/amdt	☐	substitute w/amdt	☐

Date: ____________________ Date: ____________________

____________________ ____________________

Clerk of the House of Delegates Clerk of the Senate

VIRGINIA ACTS OF ASSEMBLY -- 1995 RECONVENED SESSION

REENROLLED

CHAPTER 775

An Act to amend the Code of Virginia by adding in Article 13 of Chapter 3 of Title 58.1 sections numbered 58.1-439.1 and 58.1-439.2 and to amend and reenact the third enactment of Chapter 730 of the 1988 Acts of Assembly, relating to coal industry tax credits.

[H 2575]

Approved April 6, 1995

Be it enacted by the General Assembly of Virginia:

1. That the Code of Virginia is amended by adding in Article 13 of Chapter 3 of Title 58.1 sections numbered 58.1-439.1 and 58.1-439.2 as follows:

§ 58.1-439.1. Coalfield employment enhancement tax credit.

A. For tax years beginning on and after January 1, 1996, but before January 1, 2001, any person who has an economic interest in coal mined in the Commonwealth shall be allowed a credit against the tax imposed by § 58.1-400 and any other tax imposed by the Commonwealth in accordance with the following:

1. For coal mined by underground methods, the credit amount shall be based on the seam thickness as follows:

Seam Thickness	Credit per Ton
Under 33"	$.60
33" and Above	$.50

The seam thickness shall be based on the weighted average isopach mapping of actual coal thickness by mine as certified by a professional engineer. Copies of such certification shall be maintained by the person qualifying for the credit under this section for a period of three years after the credit is applied for and received and shall be available for inspection by the Department of Taxation. The Department of Mines, Minerals and Energy is hereby authorized to audit all information upon which the isopach mapping is based.

2. For coal mined by surface mining methods, a credit in the amount of twenty-five cents per ton for coal sold in 1996, and each year thereafter.

B. In addition to the credit allowed in subsection A, for tax years beginning on and after January 1, 1996, any person who is a producer of coalbed methane shall be allowed a credit in the amount of one cent per million BTUs of coalbed methane produced in the Commonwealth against the tax imposed by § 58.1-400 and any other tax imposed by the Commonwealth on such person.

C. For purposes of this section, economic interest is the same as the economic ownership interest required by § 611 of the Internal Revenue Code which was in effect on December 31, 1977. A party who only receives an arm's length royalty shall not be considered as having an economic interest in coal mined in the Commonwealth.

D. If the credit exceeds the person's state tax liability for the tax year, the excess may be redeemable by the Tax Commissioner on behalf of the Commonwealth for ninety-five percent of the face value within ninety days after filing the return. If the Commonwealth does not redeem such excess amount, it shall be transferable by sale.

E. No person may utilize more than one of the credits on a given ton of coal described in subsection A. No person may claim a credit pursuant to this section for any ton of coal for which a credit has been claimed under § 58.1-433 or § 58.1-2626.1. Persons who qualify for the credit may not apply such credit to their tax returns prior to January 1, 1999, and only one year of credits shall be allowed annually beginning in 1999. No credit authorized by subsections A and B shall be taken by any taxpayer in 1999 unless general fund revenue in fiscal year 1997-98 exceeds the official estimate of general fund revenue by at least the cost of the credits authorized by subsections A and B as estimated by the Department of Taxation. In each following year no credit shall be taken by any taxpayer unless general fund revenue in the fiscal year ending the prior June 30 exceeds the official estimate of general fund revenue by at least the cost of the credits authorized by subsections A and B.

§ 58.1-439.2. Qualifying steam producers tax credit.

For tax years beginning on and after January 1, 1996, but before January 1, 2001, a steam *producer shall be allowed a credit against the tax imposed by § 58.1-400 in the amount of three dollars per ton for each ton of coal mined in Virginia purchased by such steam producer. "Steam producer" means a person who sells steam energy to a manufacturing company in the Commonwealth or uses steam to produce manufactured goods. In order to receive the credit under this section, the steam producer shall include a certification from the coal producer that the coal was mined in Virginia. In no event shall the credit allowed hereunder exceed the total amount of tax liability of such steam producer. Any tax credit not usable for the taxable year may be carried over to the extent usable for the next five succeeding tax years or until the full credit is used, whichever is sooner.*

2. That the third enactment of Chapter 730 of the 1988 Acts of Assembly is amended and reenacted as follows:

3. That the provisions of this act shall expire on December 31, ~~1996~~ *2001*.

3. That the Virginia Port Authority shall undertake a study of the effect the Coalfield Enhancement Tax Credit has or will have on the export coal businesses at the Ports of Hampton Roads, and make its report to the chairmen of the Senate Finance and House Finance Committees by December 1, 1995.

4. That the Center for Public Service, in cooperation with the Virginia Port Authority, Department of Taxation, Department of Mines, Minerals and Energy, Department of Economic Development, the Office of the Attorney General, shall undertake a study of the policy, legal, and economic impacts of the credits authorized by §§ 58.1-433 and 58.1-2626.1 and to be authorized under this act, as well as the efficiency of such credits, and make its report to the Governor and the chairmen of the Senate Finance and House Finance Committees by December 1, 1995.

GENERAL ASSEMBLY OF VIRGINIA -- 1995 SESSION

HOUSE JOINT RESOLUTION NO. 586

Requesting the Coal Subcommittee of the Virginia Coal and Energy Commission to continue its study of ways to reverse the downward trend in Virginia coal production and employment.

Agreed to by the House of Delegates, February 4, 1995
Agreed to by the Senate, February 21, 1995

WHEREAS, since 1990, the Virginia coal industry has suffered precipitous declines in coal production and employment; and

WHEREAS, this downward spiral is continuing, as evidenced by Virginia Employment Commission data showing that 1,603 unemployment claims were filed by Virginia coal industry employees during the first nine months of 1994; and

WHEREAS, a December 1994 report of the Virginia Center for Coal and Energy Research (VCCER) shows that Virginia's difficult geologic conditions are the primary reason for these declining production and employment figures; and

WHEREAS, according to VCCER's report, for every one million-ton decline in Virginia coal production, 876 jobs and $25.2 million in payroll will be lost; and $3.58 million in state and local tax revenue will be lost; and the Commonwealth will incur additional unemployment compensation and public assistance costs; and

WHEREAS, the demand for Virginia coal is expected to decline from 41.6 million tons in 1993 to 38.9 million tons in 1995, 32.9 million tons in 2000, and 31 million tons in 2005; and

WHEREAS, southwest Virginia will be severely impacted by these declines, and significant negative effects will be felt throughout the Commonwealth; and

WHEREAS, the Coal Subcommittee of the Virginia Coal and Energy Commission examined many of the issues surrounding the decline of the Virginia coal industry during 1994, but because of the number and complexity of the issues the subcommittee requires additional time to study the matter; now, therefore, be it

RESOLVED by the Senate, the House of Delegates concurring, That the Coal Subcommittee of the Virginia Coal and Energy Commission be requested to continue its ongoing study of ways, including tax credits, of reversing the downward trend in Virginia coal production and employment. In fashioning recommendations, the coal subcommittee shall consider the potential impacts on Virginia's existing coal producers and strive to ensure that no Virginia producers are given an unfair competitive advantage over other Virginia producers.

The Division of Legislative Services and the staff of the Senate Finance and House Appropriation Committees shall provide staff support for the study. All agencies of the Commonwealth shall provide assistance to the coal subcommittee, upon request.

The coal subcommittee is requested to complete its work in time to submit its findings and recommendations to the Governor and the 1996 Session of the General Assembly as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents.

VIRGINIA ACTS OF ASSEMBLY -- 1995 SESSION

CHAPTER 101

An Act to amend and reenact §§ 58.1-609.3, 58.1-609.6 and 58.1-609.7 of the Code of Virginia, relating to retail sales and use tax exemptions.

[S 721]

Approved March 8, 1995

Be it enacted by the General Assembly of Virginia:

1. That §§ 58.1-609.3, 58.1-609.6 and 58.1-609.7 of the Code of Virginia are amended and reenacted as follows:

§ 58.1-609.3. Commercial and industrial exemptions.

The tax imposed by this chapter or pursuant to the authority granted in §§ 58.1-605 and 58.1-606 shall not apply to the following:

1. Personal property purchased by a contractor which is used solely in another state or in a foreign country, which could be purchased by such contractor for such use free from sales tax in such other state or foreign country, and which is stored temporarily in Virginia pending shipment to such state or country.

2. (i) Industrial materials for future processing, manufacturing, refining, or conversion into articles of tangible personal property for resale where such industrial materials either enter into the production of or become a component part of the finished product; (ii) industrial materials that are coated upon or impregnated into the product at any stage of its being processed, manufactured, refined, or converted for resale; (iii) machinery or tools or repair parts therefor or replacements thereof, fuel, power, energy, or supplies, used directly in processing, manufacturing, refining, mining or converting products for sale or resale; (iv) materials, containers, labels, sacks, cans, boxes, drums or bags for future use for packaging tangible personal property for shipment or sale; or (v) equipment, printing or supplies used directly to produce a publication described in subdivision 3 of § 58.1-609.6 whether it is ultimately sold at retail or for resale or distribution at no cost. Machinery, tools and equipment, or repair parts therefor or replacements thereof, shall be exempt if the preponderance of their use is directly in processing, manufacturing, refining, mining or converting products for sale or resale. The provisions of this subsection do not apply to the drilling, extraction, refining, or processing of oil, gas, natural gas and coalbed methane gas.

3. Tangible personal property sold or leased to (i) a public service corporation subject to a state franchise or license tax upon gross receipts, (ii) a telecommunications company as defined in § 58.1-400.1 or (iii) a telephone company chartered in the Commonwealth which is exclusively a local mutual association and is not designated to accumulate profits for the benefit of, or to pay dividends to, the stockholders or members thereof, for use or consumption by such corporation, company, person or mutual association directly in the rendition of its public service; and tangible personal property sold or leased to a public service corporation engaged in business as a common carrier of property or passengers by motor vehicle or railway, for use or consumption by such common carrier directly in the rendition of its public service.

4. Ships or vessels, or repairs and alterations thereof, used or to be used exclusively or principally in interstate or foreign commerce; fuel and supplies for use or consumption aboard ships or vessels plying the high seas, either in intercoastal trade between ports in the Commonwealth and ports in other states of the United States or its territories or possessions, or in foreign commerce between ports in the Commonwealth and ports in foreign countries, when delivered directly to such ships or vessels; or tangible personal property used directly in the building, conversion or repair of the ships or vessels covered by this subdivision.

5. Tangible personal property purchased for use or consumption directly and exclusively in basic research or research and development in the experimental or laboratory sense.

6. Tangible personal property sold or leased to an airline operating in intrastate, interstate or foreign commerce as a common carrier providing scheduled air service, as defined in § 58.1-1501, on a continuing basis to one or more Virginia airports for use or consumption by such airline directly in the rendition of its common carrier service.

7. Meals furnished by restaurants or food service operators to employees as a part of wages.

8. Tangible personal property including machinery and tools, repair parts or replacements thereof, and supplies and materials used directly in maintaining and preparing textile products for rental or leasing by an industrial processor engaged in the commercial leasing or renting of laundered textile products.

9. *(i)* Certified pollution control equipment and facilities as defined in § 58.1-3660*; and (ii) From July 1, 1994, through June 30, 1996, certified pollution control equipment and facilities as defined in § 58.1-3660 and which, in accordance with such section, have been certified by the Department of Mines, Minerals and Energy for coal, oil and gas production, including gas, natural gas, and coalbed methane gas.*

10. Parts, tires, meters and dispatch radios sold or leased to taxicab operators for use or consumption directly in the rendition of their services.

11. High speed electrostatic duplicators or any other duplicators which have a printing capacity of 4,000 impressions or more per hour purchased or leased by persons engaged primarily in the printing or photocopying of products for sale or resale.

12. From July 1, 1994, through June 30, 1996, raw materials, fuel, power, energy, supplies, machinery or tools or repair parts therefor or replacements thereof, used directly in the drilling, extraction, refining, or processing of natural gas or oil and the reclamation of the well area. For the purposes of this section, the term "natural gas" shall mean "gas," "natural gas," and "coalbed methane gas" as defined in § 45.1-361.1. For the purposes of this section, "drilling," "extraction," "refining," and "processing" shall include production, inspection, testing, dewatering, dehydration, or distillation of raw natural gas into a usable condition consistent with commercial practices, and the gathering and transportation of raw natural gas to a facility wherein the gas is converted into such a usable condition. Machinery, tools and equipment, or repair parts therefor or replacements thereof, shall be exempt if the preponderance of their use is directly in the drilling, extraction, refining, or processing of natural gas or oil for sale or resale, or in well area reclamation activities required by state or federal law.

§ 58.1-609.6. Media-related exemptions.

The tax imposed by this chapter or pursuant to the authority granted in §§ 58.1-605 and 58.1-606 shall not apply to the following:

1. Leasing, renting or licensing of copyright audio or video tapes, and films for public exhibition at motion picture theaters or by licensed radio and television stations.

2. Broadcasting equipment and parts and accessories thereto and towers used or to be used by commercial radio and television companies, cable television systems, or concerns which are under the regulation and supervision of the Federal Communications Commission and amplification, transmission and distribution equipment used or to be used by cable television systems.

3. Any publication issued daily, or regularly at average intervals not exceeding three months, and advertising supplements and any other printed matter ultimately distributed with or as part of such publications; however, newsstand sales of the same are taxable. *As used in this subdivision, the term "newstand sales" shall not include sales of back copies of publications by the publisher or his agent.*

4. Catalogs, letters, brochures, reports, and similar printed materials, except administrative supplies, the envelopes, containers and labels used for packaging and mailing same, and paper furnished to a printer for fabrication into such printed materials, when stored for twelve months or less in the Commonwealth and distributed for use without the Commonwealth. As used in this subdivision, "administrative supplies" includes, but is not limited to, letterhead, envelopes, and other stationery; and invoices, billing forms, payroll forms, price lists, time cards, computer cards, and similar supplies. Notwithstanding the provisions of subdivision 5 of this section or the definition of "advertising" contained in § 58.1-602, any advertising business located outside the Commonwealth which purchases printing from a printer within the Commonwealth shall not be deemed the user or consumer of the printed materials when such purchases would have been exempt under this subdivision.

5. Advertising as defined in § 58.1-602.

6. From July 1, 1995, through June 30, 1997,

a. (i) The lease, rental, license, sale, other transfer, or use of any audio or video tape, film or other audiovisual work where the transferee or user acquires or has acquired the work for the *purpose of licensing, distributing, broadcasting, commercially exhibiting or reproducing the work or using or incorporating the work into another such work; (ii) the provision of production services or fabrication in connection with the production of any portion of such audiovisual work, including, but not limited to, scriptwriting, photography, sound, musical composition, special effects, animation, adaptation, dubbing, mixing, editing, cutting and provision of production facilities or equipment; (iii) the transfer or use of tangible personal property, including, but not limited to, scripts, musical scores, storyboards, artwork, film, tapes and other media, incident to the performance of such services or fabrication. However, audiovisual works and incidental tangible personal property described in clauses (i) and (iii) shall be subject to tax as otherwise provided in this chapter to the extent of the value of their tangible components prior to their use in the production of any audiovisual work and prior to their enhancement by any production service; and*

b. Equipment and parts and accessories thereto used or to be used in the production of such audiovisual works.

§ 58.1-609.7. Medical-related exemptions.

The tax imposed by this chapter or pursuant to the authority granted in §§ 58.1-605 and 58.1-606 shall not apply to the following:

1. Medicines, drugs, hypodermic syringes, artificial eyes, contact lenses, eyeglasses and hearing aids dispensed by or sold on prescriptions or work orders of licensed physicians, dentists, optometrists, ophthalmologists, opticians, audiologists, hearing aid dealers and fitters, *nurse practitioners, physicians's assistants,* and veterinarians; and controlled drugs purchased for use by a licensed physician in his professional practice, regardless of whether such practice is organized as a sole proprietorship, partnership or professional corporation, or any other type of corporation in which the shareholders and operators are all licensed physicians engaged in the practice of medicine, but excluding hospitals, nursing homes, clinics, and similar corporations not otherwise exempt under this section. Any veterinarian dispensing or selling medicines or drugs on prescription shall be deemed to be the user or consumer of all such medicines and drugs.

2. Wheelchairs and parts therefor, braces, crutches, prosthetic devices, orthopedic appliances, catheters, urinary accessories, other durable medical equipment and devices, and related parts and supplies specifically designed for those products; and insulin and insulin syringes, and equipment, devices or chemical reagents which may be used by a diabetic to test or monitor blood or urine, when such items or parts are purchased by or on behalf of an individual for use by such individual. Durable medical equipment is equipment which (i) can withstand repeated use, (ii) is primarily and customarily used to serve a medical purpose, (iii) generally is not useful to a person in the absence of illness or injury, and (iv) is appropriate for use in the home.

3. Drugs and supplies used in hemodialysis and peritoneal dialysis.

4. Tangible personal property for use or consumption by a nonprofit hospital or a nonprofit licensed nursing home.

5. Tangible personal property for use or consumption by community health centers exempt from taxation under § 501 (c) (3) of the Internal Revenue Code and established for the purpose of providing health care services for areas of the Commonwealth containing a medically underserved population as defined by 42 U.S.C. § 254 c (b) (3).

6. Special equipment installed on a motor vehicle when purchased by a handicapped person to enable such person to operate the motor vehicle.

7. Tangible nonmedical personal property purchased by a nonprofit organization organized exclusively for the purpose of providing housing and ancillary assistance for individuals suffering from leukemia or oncological diseases, for other ill individuals, and for the families of such individuals during periods of medical treatment of such individuals at any hospital in the Commonwealth.

8. Tangible personal property purchased by a voluntary health organization exempt from taxation under § 501 (c) (3) of the Internal Revenue Code and organized exclusively for the purpose of providing direct therapeutic and rehabilitative services, such as speech therapy, physical therapy, and camping and recreational activities, to the children and adults of this Commonwealth regardless of the nature of their disease or socio-economic position.

9. Special typewriters and computers and related parts and supplies specifically designed for those

products used by handicapped persons to communicate when such equipment is prescribed by a licensed physician.

10. Tangible personal property purchased for use or consumption by health maintenance organizations licensed under Chapter 43 (§ 38.2-4300 et seq.) of Title 38.2 which are exempt from taxation under § 501 (c) (3) of the Internal Revenue Code.

11. Tangible personal property for use or consumption by a nonprofit, nonstock corporation which is exempt from taxation under § 501 (c) (3) of the Internal Revenue Code and which is organized under the laws of the Commonwealth exclusively for the purpose of conducting a clinic furnishing free health care services by licensed physicians and dentists.

12. Tangible personal property purchased for use or consumption by any nonprofit hospital cooperative or nonprofit hospital corporation organized and operated for the sole purpose of providing services exclusively to nonprofit hospitals. This exemption shall not apply to any nonprofit hospital, cooperative or nonprofit hospital corporation providing services of any kind or to any extent to other than nonprofit hospitals.

13. From July 1, 1989, through June 30, 1998, tangible personal property purchased for use or consumption by a nonprofit high blood pressure center which is used exclusively to provide medical assistance to indigent persons diagnosed with hypertension.

14. From July 1, 1989, through June 30, 1998, tangible personal property purchased for use or consumption by a tissue bank exempt from taxation under § 501 (c) (3) of the Internal Revenue Code and established for purposes of procuring, preserving, processing, allocating or distributing bones, organs, blood, skin and other human tissue to licensed physicians for clinical use.

15. Beginning July 1, 1996, any nonprescription drugs and proprietary medicines purchased for the cure, mitigation, treatment, or prevention of disease in human beings. The terms "nonprescription drugs" and "proprietary medicines" shall be defined pursuant to regulations promulgated by the Department of Taxation. The exemption authorized in this subdivision shall not apply to cosmetics.

16. From July 1, 1994, through June 30, 1998, tangible personal property purchased for use or consumption or sold by a volunteer medical services organization exempt from taxation under § 501 (c) (3) of the Internal Revenue Code and established to provide reconstructive surgery and related health care to indigent children and young adults in developing countries and the United States.

APPENDIX T

COMMONWEALTH *of* VIRGINIA

COAL AND ENERGY COMMISSION

General Assembly Building

910 CAPITOL STREET
SECOND FLOOR
RICHMOND, VIRGINIA 23219

IN RESPONSE TO
THIS LETTER TELEPHONE
(804) 786-3591

January 18, 1995

The Honorable Carol Brunty
Commissioner, Department of Social Services
730 E. Broad Street
Richmond, VA 23219-1849

Dear Commissioner Brunty:

I am writing to you as the Chairman of the Virginia Coal and Energy Commission. On behalf of the members of the Commission, I respectfully request that you consider allocating Low-Income Home Energy Assistance Program (LIHEAP) funds to the Weatherization Assistance Program (WAP).

The Commission has been following with interest the progress of increasing cooperation between LIHEAP and WAP. We applaud the effort to coordinate the two programs, which both provide vital assistance to low-income Virginians. The Commission has also learned that WAP has suffered a dramatic decrease in funding in recent years. WAP represents a particularly efficient use of taxpayer dollars, as it both reduces energy bills and contributes to the goal of energy conservation in the Commonwealth. And because it renders homes less likely to require fuel or crisis assistance, the benefits provided by WAP are more permanent than those provided by LIHEAP.

We have learned that federal law allows states to use up to fifteen percent of funds allotted under LIHEAP for home weatherization. Forty-one states currently use LIHEAP money this way; in fact, nationwide, over thirty percent of weatherization funds come from LIHEAP. We also understand that before oil overcharge funds became available, Virginia made such an allocation. Because of the economic efficiency of the weatherization program and the program's acute need of additional funding, we urge you to consider again allocating LIHEAP funds to WAP in Virginia.

Your due consideration of this request is greatly appreciated.

Sincerely,

Frank W. Nolen
Member, Senate of Virginia

THEATER ROW BUILDING
730 EAST BROAD STREET
RICHMOND, VIRGINIA 23219-1849

(804) 692-1944

FOR HEARING IMPAIRED, VOICE/TDD:
1-800-552-7096

COMMONWEALTH of VIRGINIA

DEPARTMENT OF SOCIAL SERVICES

Ms. Carol A. Br
COMMISSIONER

February 9, 1995

The Honorable Frank W. Nolen, Chairman
Virginia Coal and Energy Commission
P. O. Box 13
New Hope, Virginia 24469

Dear Senator Nolen:

The January 18, 1995 request from the Virginia Coal and Energy Commission to consider allocating a portion of the Low Income Home Energy Assistance (LIHEA) grant to the Weatherization Program has been received.

An allocation of funds is no longer allowable, however, a joint venture within LIHEA regulations is possible. Even though the LIHEA grant has suffered a seven percent reduction since our last allocation to the Weatherization Program, a more efficient utilization of LIHEA funds relative to energy burden reduction and conservation needs to be considered. Just how this will be addressed will be determined as planning with the State Board of Social Services evolves in preparation for operation in the next grant year.

Thank you and your committee for your continued interest in this program.

Cordially,

Carol A. Brunty

(Ms.) Carol A. Brunty
Commissioner

CAB/cc

COMMONWEALTH of VIRGINIA

COAL AND ENERGY COMMISSION
General Assembly Building

910 CAPITOL STREET
SECOND FLOOR
RICHMOND, VIRGINIA 23219

IN RESPONSE TO
THIS LETTER TELEPHONE
(804) 786-3591

June 24, 1994

The Honorable George F. Allen
Governor
Capitol Building
Richmond, Virginia 23219

Dear Governor Allen:

On June 21, 1994, the Virginia Coal and Energy Commission met in Abingdon to hear reports regarding the status of the coal industry. We were informed that coal production from the Commonwealth's mines has fallen from 38 million tons to 30 million tons between 1990 and 1993. During this same period, coal mine employment has declined from 10,265 to 9,144. Additionally, coal exported through Virginia's ports has dropped twenty percent between 1989 and 1993.

A representative of one major coal producer testified to the Commission that the bleak economic climate has forced the closing of five of its Virginia mines. These mine closings by just one company will cause $68 million in direct economic benefit to be lost to the counties of Dickinson, Tazewell, and Wise.

The frightening message of these statistics has instilled the Commission with a sense of urgency. The health of the Virginia coal industry has deteriorated since I wrote to you on January 27 to endorse the calling of a Governor's Symposium on coal exports. As you may recall, convening the Symposium was recommended pursuant to Senate Joint Resolution 208 (1993). The purposes of the Symposium will be to (1) review the findings of the SJR 208 study related to international markets for Virginia coal; (2) receive advice on the appropriate role of the Commonwealth in promoting coal exports; (3) determine federal and state regulations, tax policies, and other factors affecting the sale of Virginia Coal and recommend executive action to minimize regulations that constrain trade; and (4) discuss emerging technological advancements and ecological issues in Virginia's major coal export markets.

The Honorable George F. Allen
June 24, 1994
Page 2

I would like to offer the assistance of the Coal and Energy Commission to the Department of Economic Development and the Department of Mines, Minerals and Energy in conducting the Symposium. The Commission stands ready to build a partnership with these departments on this topic, and to support any recommendations that may result from the Symposium.

I have been advised that Charles Jumet of your staff, in conjunction with George Hiller at DED and Steve Walz at DMME, is working diligently on the issue of improving the market for exports of Virginia coal. I want to reiterate the support of the Commission for a Symposium focusing on this issue. I would greatly appreciate receiving a report at your earliest convenience on the status of plans to convene a Symposium.

Very truly yours,

Frank W. Nolen, Chairman
Member, Senate of Virginia

FWN/fdm

cc: Members of the Virginia Coal and Energy Commission