

Taxing Coal and Lignite Production Could Harm Texas Consumers and the State's Economic Health



A tax on Texas lignite would create winners and losers. The winners: Wyoming coal companies. The losers: Texas electric ratepayers.

In the Electric Reliability Council of Texas (ERCOT) region, 37 percent of generation comes from coal, with another 8,000 MW of generation announced or under construction. In addition, the Texas coal and lignite industry provides thousands of permanent jobs paying hundreds of millions of dollars in wages and benefits. Legislation that makes coal and coal-fired generation less competitive in the market could be felt throughout the state.

Taxing lignite would make Texas production less competitive in a nationwide coal market, creating economic advantages for coal producers in Wyoming's Powder River Basin, while harming consumers by raising prices. Businesses, especially those highly dependent on electricity, would be impacted by this economic deterrent, while consumers of all sizes would likely shoulder the costs. Also at risk are the substantial economic benefits and Texas jobs brought by the coal industry.

Lignite Taxation Would be a Hidden Tax on Consumers.

Raising costs for electric generators using lignite could affect the market price for power. Given recent focus on reducing the impact on natural gas generation on wholesale market prices within ERCOT, increasing production costs for coal-fired generation creates another driver to increase the price of electricity, meaning a tax on coal would raise prices for customers. In areas outside ERCOT, the tax would presumably be incorporated in utilities' regulated rates.

Taxing Business Inputs is Poor Economic Policy.

Because coal is an input to the manufacture of electricity, taxing coal is akin to taxing steel used in an auto plant. Sound policy calls for taxes to be on final use of a product, just as cars are taxed at the dealership. Additionally, unknown to many consumers of electricity because of the lack of transparency of this tax, this proposal results in the compounding of tax to the ultimate consumer of the end product, electricity.

A Production Tax Would Harm Texas in a Global Economy.

Production taxes are bad for the economy of the state that imposes them. Taxing any commodity or product at the point it's produced can only hurt the place where it's produced. Coal is available from all over the world, and Texas already uses Wyoming coal for much of its generation. Taxing Texas lignite only results in less investment in Texas lignite, leading to fewer jobs in the state.

Lignite Production in Texas Benefits Only Texas. A Tax Would Hurt Only Texans.

Unlike natural gas produced in Texas, half of which is sold outside the state, and much is used for product manufacture for export, all of Texas' lignite production is consumed in Texas. A tax on production would be borne virtually 100 percent by Texans.