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Curbing Acid Rain:
Cost, Budget, and Coal-Market Effects
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ERRATA

On page 160, Options IV-1 through IV-3 were mistakenly captioned Options VI. The page should have appeared as below.

160 CURBING ACID RAIN

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Option III-2C: A 10 million ton rollback of SO₂ emissions that requires the 50 highest emitting plants to install scrubbers, and that includes a 90 percent capital subsidy for all retrofit scrubbers provided by a temporary tax on electricity generation fired by fossil fuels.

Option IV-1: Imposes a tax on SO₂ emissions of \$600 per ton, to achieve a total SO₂ rollback of 9.2 million tons.

Option IV-2: Imposes a tax on SO₂ emissions of \$600 per ton, and includes a 90 percent capital subsidy for retrofit scrubbers. Achieves a total SO₂ rollback of 9.5 million tons.

Option IV-3: Imposes a tax on SO₂ emissions of \$600 per ton, and includes a 90 percent capital subsidy and a 50 percent O&M subsidy for retrofit scrubbers. Achieves a total SO₂ rollback of 9.6 million tons.

Option V-1: Imposes a tax on each ton of coal sold, computed at \$0.50 per pound of sulfur contained in each ton (to the extent that sulfur content exceeds 10 pounds per ton). Grants a 90 percent capital subsidy on retrofit scrubbers as well as a \$0.50 per pound subsidy for any sulfur removed by a scrubber. Achieves a total SO₂ rollback of 8.9 million tons.

Option V-1: Imposes a tax on each ton of coal sold, computed at \$0.50 per pound of sulfur contained per million Btus (to the extent that sulfur content exceeds 0.4 pounds per million Btus). Grants a 90 percent capital subsidy on retrofit scrubbers as well as a \$0.50 per pound subsidy for any sulfur removed by a scrubber. Achieves a total SO₂ rollback of 8.9 million tons.

Option VI-1: A polluter pays rollback of SO₂ emissions based on utilities' achieving a statewide average emission rate of 1.2 pounds of SO₂ emitted per million Btus of fuel burned. Achieves a total SO₂ rollback of 9.1 million tons.

Option VI-2: A polluter pays rollback of SO₂ emissions based on utilities' achieving a plant-by-plant emission rate of 1.2 pounds of SO₂ emitted per million Btus of fuel burned. Achieves a total SO₂ rollback of 9.9 million tons.

Option VI-3: A polluter pays rollback of SO₂ emissions based on utilities' achieving a plant-by-plant emission rate of 0.7 pounds of SO₂ emitted per million Btus of fuel burned. Achieves a total SO₂ rollback of 12.3 million tons.

**CURBING ACID RAIN:
COST, BUDGET, AND COAL-MARKET EFFECTS**

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NOTE

All costs are in 1985 dollars
unless otherwise noted.

PREFACE

Throughout the 1980s, acid rain has grown into a prominent environmental concern. Although questions remain on the chemistry and mechanisms of damage from acid rain, both the 98th and 99th Congress have considered proposals to stem this form of pollution. These proposals call for significant reductions in the amount of sulfur dioxide discharged by electric utilities, usually by placing additional controls on older power plants that are principally located in the Midwest and Appalachia and burn coal with a high sulfur content. Such approaches raise complex regional issues of who would pay the sizable abatement costs and which states might suffer substantial losses in coal production and mining jobs. At the request of the Senate Committee on Environment and Public Works, this study examines the key elements of legislative proposals introduced over the last several years, including two recent bills now under consideration in the Congress. In keeping with the Congressional Budget Office's (CBO) mandate to provide objective analysis, this report makes no recommendations.

This paper was written by Marc Chupka and John Thomasian of CBO's Natural Resources and Commerce Division, under the supervision of Everett M. Ehrlich and John Thomasian. The authors wish to express special thanks to William Orchard-Hays and Melinda Hobbs of the Department of Energy for their time and expert knowledge. Lois Trojan, Caryna Baker-Fox, Dolly Riegert, and Tom Young provided valuable research assistance. The authors are also grateful to the many individuals who provided valuable comments on earlier drafts, including Robert Friedman, Rob Brenner, and Paul Portney. Patricia H. Johnston edited the manuscript, and Patricia Joy prepared the report for publication.

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CONTENTS

SUMMARY	xv
CHAPTER I INTRODUCTION	1
The Nature of the Problem	2
Utility Regulation and Domestic Coal Markets	3
The Potential Effects of Acid Rain Legislation	4
CHAPTER II CURRENT POLICY AND THE POTENTIAL COSTS OF FURTHER REDUCTIONS IN SO ₂ EMISSIONS.....	7
Requirements of the Clean Air Act Currently Affecting Electric Utilities	8
Effects of Requiring Rollbacks in Sulfur Dioxide Emissions	14
CHAPTER III ALLOCATING EMISSION REDUCTION COSTS THROUGH TAXES COLLECTED ON ELECTRICITY PRODUCTION	41
Rationale Behind Subsidizing Control Costs Through an Electricity Tax	42
Electricity Tax and Subsidy Options	44
CHAPTER IV REDUCING SULFUR DIOXIDE LEVELS WITH EMISSION TAX AND SUBSIDY PROGRAMS	69
Rationale for an Emissions Tax	71
Emission Tax Approaches	74
Coal Markets and Mining Employment	90

CHAPTER V	LOWERING SULFUR DIOXIDE LEVELS WITH TAX ON SULFUR CONTENT IN COAL AND SUBSIDIES FOR SCRUBBING	95
	Taxing the Sulfur Content of Fuel: Theory and Implementation	96
	The Effects of Sulfur Taxes and Subsidies	97
CHAPTER VI	TWO RECENT CONGRESSIONAL PROPOSALS	119
	Methodology Used to Examine the Two Approaches	120
	Sulfur Dioxide Reductions and Costs	121
	Conclusions	137
APPENDIX	THE NATIONAL COAL MODEL AND CBO ANALYSIS AND ASSUMPTIONS	141
	The National Coal Model	141
	Additional Models	153
GLOSSARY		159

SUMMARY	CHARACTERISTICS AND EFFECTS	
TABLE 1.	OF OPTIONS	
TABLE 1.	NEW SOURCE PERFORMANCE STANDARDS FOR COAL-FIRED ELECTRIC UTILITIES	9
TABLE 2.	COAL COSTS AND AVERAGE SULFUR CONTENT OF COAL, BY REGION	12
TABLE 3.	PROJECTED 1995 EMISSIONS FOR 8 AND 10 MILLION TON SO ₂ REDUCTION PROGRAMS, BY STATE	20
TABLE 4.	COMPARISON OF TOTAL PROGRAM COSTS AND COST-EFFECTIVENESS OF TWO ROLLBACK PROGRAMS	22
TABLE 5.	ANNUAL UTILITY COSTS AS OF 1995 OF 8 MILLION TON SO ₂ ROLLBACK, BY STATE	24
TABLE 6.	ANNUAL UTILITY COSTS AS OF 1995 OF 10 MILLION TON SO ₂ ROLLBACK, BY STATE	26
TABLE 7.	ELECTRICITY PRICE CHANGES AS OF 1995 UNDER AN 8 MILLION TON SO ₂ ROLLBACK, BY STATE	30
TABLE 8.	ELECTRICITY PRICE CHANGES AS OF 1995 UNDER A 10 MILLION TON SO ₂ ROLLBACK, BY STATE	32
TABLE 9.	COAL PRODUCTION CHANGES AS OF 1995 UNDER AN 8 MILLION TON SO ₂ ROLLBACK, BY STATE	34
TABLE 10.	COAL PRODUCTION CHANGES AS OF 1995 UNDER A 10 MILLION TON SO ₂ ROLLBACK, BY STATE	35

TABLE 11.	COAL MINING EMPLOYMENT CHANGES AS OF 1995 UNDER 8 MILLION TON SO ₂ ROLLBACK, BY COAL-PRODUCING STATE	37
TABLE 12.	COAL MINING EMPLOYMENT CHANGES AS OF 1995 UNDER 10 MILLION TON SO ₂ ROLLBACK, BY COAL-PRODUCING STATE	38
TABLE 13.	EMISSION REDUCTION OPTIONS USING TAXES AND SUBSIDIES	45
TABLE 14.	COMPARISON OF TOTAL PROGRAM COSTS AND COST-EFFECTIVENESS OF VARIOUS OPTIONS UNDER TWO ROLLBACK PROGRAMS	47
TABLE 15.	ANNUAL UTILITY COSTS AS OF 1995 OF 8 MILLION TON SO ₂ ROLLBACK WITH TAX AND SUBSIDY OPTIONS COMPARED WITH POLLUTER PAYS OPTION, BY STATE	50
TABLE 16.	ANNUAL UTILITY COSTS AS OF 1995 OF 10 MILLION TON SO ₂ ROLLBACK WITH TAX AND SUBSIDY OPTIONS COMPARED WITH POLLUTER PAYS OPTION, BY STATE	52
TABLE 17.	ANNUAL SUBSIDIES PROVIDED TO UTILITIES AS OF 1995 UNDER TWO ROLLBACK PROGRAMS AND THREE SUBSIDY OPTIONS, BY STATE	55
TABLE 18.	REVENUES FROM ELECTRICITY TAX IN 1995	56
TABLE 19.	ELECTRICITY PRICE CHANGES BY 1995 UNDER AN 8 MILLION TON SO ₂ ROLLBACK PROGRAM AND SEVERAL OPTIONS, BY STATE	60

TABLE 20.	ELECTRICITY PRICE CHANGES BY 1995 UNDER A 10 MILLION TON SO ₂ ROLLBACK PROGRAM AND SEVERAL OPTIONS, BY STATE	62
TABLE 21.	COAL PRODUCTION CHANGES AS OF 1995 UNDER AN 8 MILLION TON SO ₂ ROLLBACK PROGRAM AND VARIOUS OPTIONS, BY STATE	65
TABLE 22.	COAL PRODUCTION CHANGES AS OF 1995 UNDER A 10 MILLION TON SO ₂ ROLLBACK PROGRAM AND VARIOUS OPTIONS, BY STATE	66
TABLE 23.	COAL MINING EMPLOYMENT CHANGES BY 1995 UNDER AN 8 MILLION TON SO ₂ ROLLBACK PROGRAM AND VARIOUS OPTIONS, BY STATE	67
TABLE 24.	COAL MINING EMPLOYMENT CHANGES BY 1995 UNDER A 10 MILLION TON SO ₂ ROLLBACK PROGRAM AND VARIOUS OPTIONS, BY STATE	68
TABLE 25.	EMISSION TAX OPTIONS	70
TABLE 26.	EMISSIONS UNDER THREE EMISSION TAX OPTIONS COMPARED WITH A POLLUTER PAYS ROLLBACK OF 10 MILLION TONS, BY STATE	76
TABLE 27.	COMPARISON OF TOTAL PROGRAM COSTS AND COST-EFFECTIVENESS OF THREE EMISSION TAX OPTIONS WITH A POLLUTER PAYS ROLLBACK OF 10 MILLION TONS	80
TABLE 28.	ANNUAL UTILITY COSTS AS OF 1995 OF THREE EMISSION TAX OPTIONS COMPARED WITH A POLLUTER PAYS ROLLBACK OF 10 MILLION TONS, BY STATE	82

TABLE 29.	ELECTRICITY PRICES IN 1995 UNDER THREE EMISSION TAX OPTIONS COMPARED WITH A POLLUTER PAYS ROLLBACK OF 10 MILLION TONS, BY STATE	86
TABLE 30.	1995 REVENUES AND SUBSIDIES UNDER THREE EMISSION TAX OPTIONS	88
TABLE 31.	1995 COAL SHIPMENTS UNDER THREE EMISSION TAX OPTIONS COMPARED WITH A POLLUTER PAYS ROLLBACK OF 10 MILLION TONS, BY STATE	91
TABLE 32.	DIRECT COAL MINING EMPLOYMENT IN 1995 UNDER THREE EMISSION TAX OPTIONS COMPARED WITH A POLLUTER PAYS ROLLBACK OF 10 MILLION TONS, BY STATE	92
TABLE 33.	SULFUR AND SUBSIDY OPTIONS	98
TABLE 34.	EMISSIONS UNDER TWO SULFUR TAX OPTIONS COMPARED WITH TWO POLLUTER PAYS ROLLBACK PROGRAMS, BY STATE	100
TABLE 35.	TOTAL PROGRAM COSTS AND COST-EFFECTIVENESS OF TWO SULFUR TAX OPTIONS COMPARED WITH TWO POLLUTER PAYS ROLLBACK PROGRAMS	103
TABLE 36.	ANNUAL COST OF ELECTRICITY GENERATION IN 1995 UNDER SULFUR TAX OPTIONS COMPARED WITH TWO POLLUTER PAYS ROLLBACK PROGRAMS, BY STATE	104
TABLE 37.	1995 ELECTRICITY PRICES UNDER SULFUR TAX POLICIES COMPARED WITH TWO POLLUTER PAYS ROLLBACK PROGRAMS, BY STATE	108

TABLE 38.	TAX REVENUES AND AVERAGE TAX RATES UNDER TWO SULFUR TAX OPTIONS, BY STATE	110
TABLE 39.	ANNUAL SUBSIDIES IN 1995 UNDER TWO SULFUR TAX OPTIONS, BY STATE	114
TABLE 40.	COAL PRODUCTION AS OF 1995 UNDER TWO SULFUR TAX OPTIONS COMPARED WITH TWO POLLUTER PAYS ROLLBACK PROGRAMS, BY STATE	116
TABLE 41.	COAL MINING EMPLOYMENT IN 1995 UNDER TWO SULFUR TAX POLICIES COMPARED WITH TWO POLLUTER PAYS ROLLBACK PROGRAMS, BY STATE	117
TABLE 42.	COMPARISON OF TWO RECENT PROPOSALS WITH OPTIONS EXAMINED	122
TABLE 43.	EMISSIONS UNDER THREE OPTIONS BASED ON TWO CURRENT LEGISLATIVE PROPOSALS, COMPARED WITH A POLLUTER PAYS ROLLBACK OF 10 MILLION TONS, BY STATE	124
TABLE 44.	TOTAL PROGRAM COSTS AND COST-EFFECTIVENESS OF THREE OPTIONS BASED ON TWO CURRENT LEGISLATIVE PROPOSALS, COMPARED WITH A POLLUTER PAYS ROLLBACK OF 10 MILLION TONS	127
TABLE 45.	ANNUAL UTILITY COSTS AS OF 1995 OF THREE OPTIONS BASED ON TWO CURRENT LEGISLATIVE PROPOSALS, COMPARED WITH A POLLUTER PAYS ROLLBACK OF 10 MILLION TONS, BY STATE	130

TABLE 46.	ELECTRICITY PRICES IN 1995 UNDER THREE OPTIONS BASED ON TWO CURRENT LEGISLATIVE PROPOSALS, COMPARED WITH A POLLUTER PAYS ROLLBACK OF 10 MILLION TONS, BY STATE	132
TABLE 47.	1995 COAL SHIPMENTS UNDER THREE OPTIONS BASED ON TWO RECENT LEGISLATIVE PROPOSALS, COMPARED WITH A POLLUTER PAYS ROLLBACK OF 10 MILLION TONS, BY STATE	135
TABLE 48.	DIRECT COAL MINING EMPLOYMENT IN 1995 UNDER THREE OPTIONS BASED ON TWO CURRENT LEGISLATIVE PROPOSALS, COMPARED WITH A POLLUTER PAYS ROLLBACK OF 10 MILLION TONS, BY STATE	136
TABLE A-1.	NCM5 CAPACITY TYPES	144
TABLE A-2.	CBO ECONOMIC AND FINANCIAL ASSUMPTIONS USED IN THE NATIONAL COAL MODEL	147
TABLE A-3.	SO ₂ REDUCTIONS REQUIRED BY THE EXCESS EMISSIONS FORMULA, BY STATES	150

SUMMARY FIGURE 1.	COST-EFFECTIVENESS OF VARIOUS OPTIONS	xxvii
SUMMARY FIGURE 2.	MINING JOBS IN OHIO, ILLINOIS, INDIANA, AND PENNSYLVANIA IN 1995, UNDER VARIOUS OPTIONS	xxvii
FIGURE 1.	U.S. COAL FIELDS AND PRODUCING REGIONS	11





SUMMARY

Over the past several years, the Congress has considered various methods to control "acid rain." Acid rain is a type of air pollution in which acidic compounds in the atmosphere (usually sulfates and nitrates) fall to the earth's surface through the action of rain and gravity. The particles that comprise acid rain can damage structures, ecosystems, and--through respiratory exposure--possibly human health.

The causes of acid rain are generally understood; man-made emissions of sulfur dioxide and nitrogen oxides, often discharged far from the areas they ultimately affect, are the primary culprits. Yet, the extent of the problem and its control remain subjects of debate. A number of Congressional proposals would lower sulfur dioxide (SO₂) emissions from the nation's power plants by between 45 percent and 70 percent from levels reported in 1980, perhaps the year of highest SO₂ discharges in this decade. Sulfur dioxide emissions from electric utilities have been targeted because they represent the pollutant and source most amenable to significant reduction through available techniques. But the high cost of such emission reductions (at least \$3.2 billion annually for about a 60 percent national reduction from 1980 levels) and their potentially adverse effect on mining employment in the high-sulfur coal regions of the Midwest and Appalachia have spurred a search for alternative abatement programs.

This paper examines the different types of programs that the Congress has considered to diminish SO₂ emissions. Some control options would place no restrictions on the type of coal used or abatement method chosen; some would restrict switching from high-sulfur to low-sulfur coal; and others would tax either electricity production, sulfur dioxide emissions, or the sulfur content of coal to finance partially the utilities' costs of installing flue gas desulfurization equipment ("scrubbers") as an alternative to burning low-sulfur coal. While this analysis calculates the costs and coal-market effects of various SO₂ reduction alternatives, it does not estimate the benefits of the emission reductions. Such estimates lie beyond the scope of this study.

THE NATURE OF THE PROBLEM

Man-made emissions of SO₂ totaled about 27 million tons nationwide in 1985, of which about 15.8 million tons came from electric utilities. Under

current policy, SO₂ emissions from electric utilities are expected to grow to approximately 18.5 million tons per year by 1995. Although new power plants will produce some of this growth, older plants--built before the first federal emission regulations were issued in 1971--will still account for over 90 percent of total utility SO₂ discharges in 1995. The chief federal emission law affecting electric power plants--called the New Source Performance Standard (NSPS)--limits the discharge of SO₂ and other pollutants from new utility boilers. (This regulation was revised and standards tightened in 1978.) Although power plants built before the first NSPS still must meet other requirements of the federal Clean Air Act, their emission limits are generally set by the states and are usually more lenient than the federal NSPS.

The SO₂ emitted from these older sources (as well as from newer, but cleaner plants) is an important primary pollutant in the formation of acid rain. As the SO₂ is carried away from its source--it can travel well over 300 miles--it can be transformed in the atmosphere to sulfate, perhaps the most commonly studied constituent of acid rain. Sulfate compounds and other acid rain pollutants can return to earth in rain, snow, fog, dew, or as dry particles and gases. Upon entering bodies of water, these compounds can threaten aquatic life by raising the acidity of a lake or stream beyond acceptable levels for some fish species. Acid rain has also been linked to crop and tree damage, although airborne pollution may be only one of several explanations for these effects. Finally, some researchers--amid much disagreement--believe that acid rain poses a health risk, primarily among people with preexisting cardiac or respiratory problems.

Proposals to lower the amount of SO₂ discharged from electric utilities typically have called for a reduction of between 8 million tons and 10 million tons annually as measured from 1980 levels. (The year 1980 is a commonly used baseline, since it tends to capture the emissions of the older plants which are most often chosen for control.) Most programs would assign reductions to the individual states through an "excess emissions" formula that targets those states with the most power plants emitting SO₂ in excess of a specified amount.^{1/} Under the traditional regulatory approach, each state would be required to meet its overall reduction level by placing new emission limits on the power plants it now regulates; states would be

1. Typically, the benchmark used is 1.2 pounds of SO₂ emitted per million British thermal units (Btu) of fuel used, which is the same standard as set by the first utility NSPS of 1971. The excess emissions are defined as the total amount of SO₂ emitted annually by each plant in excess of 1.2 pounds per million Btu. National allocation schemes are subsequently derived by dividing each state's share of excess emissions by the national total of excess emissions and then multiplying this fraction by the appropriate reduction target (for example, either 8 million tons or 10 million tons).

allowed to set the new limits for each power plant. Usually, the states and utilities would be given about 10 years to comply. For this analysis, 1995 is used as the illustrative deadline.

A major issue in all proposals is the relative cost burden that would fall on specific areas of the country. Because of their reliance on older, coal-burning power plants, the states of Missouri, Illinois, Indiana, Ohio, and Pennsylvania account for over 40 percent of annual utility SO₂ emissions. These same states would, therefore, bear the greatest responsibility for lowering SO₂ emissions under most plans.

Coal-Market Issues

Reducing SO₂ emissions nationwide would have varying effects on coal production in different regions of the country, chiefly because the sulfur content of coal differs among the three major coal-producing areas. The Appalachian states contain both high- and low-sulfur coal, which is predominantly mined through expensive underground methods. The Midwest, primarily in the Illinois coal basin, produces mostly high-sulfur coal, which is close to the surface and usually can be mined through less expensive "strip mining" methods. The western states of Wyoming, Montana, and Colorado, contain an abundance of low-sulfur coal which is often closer to the surface than in the Midwest, making it the cheapest coal to mine.

When an existing plant is required to lower SO₂ emissions, it can either switch to a lower-sulfur coal, which costs more, or install scrubbers and continue to use less expensive high-sulfur coal. If given the choice when faced with tighter SO₂ limits, most existing plants would switch coals, since the real annual cost of using a low-sulfur coal is often less than that of building and operating a scrubber for most levels of SO₂ reductions. Because 80 percent of all coal mined is used by utilities, a large-scale switch to low-sulfur coal could lower mining output in the states producing high-sulfur coal--chiefly Illinois, Indiana, Ohio, and Pennsylvania.

STRATEGIES TO REDUCE SO₂ EMISSIONS

This paper presents several types of programs to reduce SO₂ emissions, based in part on current and past legislative proposals (see box). The basic characteristics and effects of the options developed from these program types are contained in Summary Table 1, with the roman numeral in each option indicating the chapter in which it is discussed. The simplest program



TYPES OF PROGRAMS EXAMINED

The Polluter Pays Approach with No Fuel-Switching Restrictions. This policy is the most traditional method for reducing SO₂ emissions. One example is to set emission reduction goals for each state (using the excess emission formula) and then require each state to set individual power plant emission limits in order to reach the statewide goal. This report examines two such cases in Chapter II: Option II-1A would require an 8 million ton SO₂ reduction from 1980 emission levels, and Option II-2A would require a 10 million ton SO₂ reduction. In contrast, the polluter pays approach could simply establish emission limits for individual power plants, and allow the states to permit either statewide averaging or compliance on a plant-by-plant basis. This method is exemplified by three SO₂ emission reduction options (between 9 million and 12 million tons) in Chapter VI. Options VI-1, VI-2, and VI-3 reflect various provisions of two recent Congressional proposals. In all cases, power plants could meet the assigned reductions by installing scrubbers or by switching to low-sulfur coal.

The Polluter Pays Approach with Fuel-Switching Restrictions. In addition to mandatory statewide emission reductions, these options would also restrict the amount of low-sulfur coal that could be substituted for high-sulfur coal. In this analysis, coal-market restrictions were simulated by requiring that 80 percent of coal purchases made in 1985 (as measured by sulfur content and coal rank) continue through 1995. This prescriptive approach for preserving current coal-market patterns is examined in Options II-1B and II-2B.

Electricity Taxes with Scrubber Subsidies. This type of option would provide financial incentives for installing scrubbers by partially subsidizing either their capital costs or their capital and operating costs. To pay for the subsidies, funds would be collected through a tax on electricity produced from fossil fuels. These alternatives are examined in Options III-1A, III-1B, III-2A, III-2B, and III-2C. In this last option, many high emitting power plants would be required to install scrubbers to meet the reduction goals.

Emissions Taxes with Scrubber Subsidies. These options would not establish specific emission reduction targets, but would provide financial incentives to lower SO₂ emissions by taxing the emissions themselves and, in some cases, by providing subsidies for scrubber installation. These scenarios are described in Options IV-1, IV-2, and IV-3.

Sulfur-in-Fuel Taxes with Scrubber Subsidies. This approach also would not mandate specific emission reduction targets, but instead would encourage SO₂ rollbacks by charging a tax on the sulfur content of coal burned by utilities while providing a rebate for each pound of sulfur removed through scrubbing. Options V-1 and V-2 explore these proposals.