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Escanaba set to test western coal

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ESCANABA — Rising cost of coal and its potential effects on local electricity rates was a hot topic during Thursday's city council meeting. Officials said, at this time, they are unsure how the increased costs will affect electric rates.

"Unfortunately, because the city of Escanaba is in the middle of the budget process, we are not going to know the answer to that question until we finalize our budget and make a recommendation to the city council," said City Manager Jim O'Toole.

"However, I can assure all city council members and citizens that every effort will be made to contain costs, stabilize rates and continue to provide quality electric service," he said. Officials should know by early April how the coal price increase will affect electric rates.

The city's purchasing agent, Wisconsin Public Service (WPS), had made arrangements with C. Reiss Coal to purchase 93,000 tons of eastern coal at \$72.45 a ton for the 2008-2009 fiscal year. Reiss was recently informed it cannot get the coal from the intended supplier, Black Diamond Mining, because the miner's creditors have forced the company into bankruptcy.

The city's option now is to purchase western coal at \$95 a ton, a 38.57 percent increase over the 2007-2008 coal prices, said O'Toole.

"The city of Escanaba is not alone in this situation and I am sure a great many discussions of this nature are occurring throughout the United States and the rest of the world," O'Toole told council.

"Escanaba's power plant is directly tied to the world's economy with respect to supply demand and price," he added. "Like the oil market, the coal market is experiencing unprecedented market run-ups on a global scale."

He concluded his summary on the coal situation by saying the coal crisis is a "bonanza" for the mining companies and a "hardship" for local utilities such as Escanaba's power plant.

Representatives from C. Reiss Coal, WPS, Upper Peninsula Power Co. (UPPCO), which operates the local power plant, and the city's electric department answered questions from council in regards to the coal issue.

Bill Reiss, president, of C. Reiss Coal, said he never would have guessed six months ago that the price of coal would go so high. It was only about five weeks ago he heard coal prices could become a "potential issue." A few days later, the city of Escanaba was notified of the coal price concerns.

"Nobody foresaw this," Reiss said. "Western coal ... is the way to go. That's what we're advising our customers."

Though the city's power plant typically uses eastern coal, the city could purchase 16,000 tons of western coal to burn on a four-week test basis, said Pat Fulsher, an UPPCO superintendent.

Council approved the purchase of 93,000 tons of western coal for \$8.8 million Thursday.

If this type of coal does not perform properly in the power plant boilers, the city will not be required to buy any more coal from the supplier, O'Toole said. If the coal does work, the city will be committed to buy the additional 77,000 tons from the supplier.

Though the fuel is a very good coal, Fulsher said he expects the city will be able to burn it with "some difficulty." He said he has concerns about the western coal's ash compared to the eastern coal's ash.

"This is our best-case scenario. The worst case will be what's out there to burn," he told council.

Dave Wanner, fuel procurement agent from WPS, said, "There really wasn't any inkling that this (bankruptcy) was going to happen." He also agreed western coal is the city's best option, adding that other suppliers are out there if the western coal doesn't work.

Electric Superintendent Mike Furmanski said the city will buy more power off the grid and use less coal as a cost-savings measure. Officials will also continue to explore biofuel options for the power plant, he added.

After the meeting, O'Toole said city officials are working on a 2008-09 budget proposal, which includes determining revenue and expenditures for the coal-fired power plant.

"Until we shake out those costs and compare them to the price of our fuel, we won't have a solid recommendation until on or around April 4," he said.

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