



VIEWS & VISIONS

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The State of Coal in America

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James Laurita is president and chief executive officer of Mepco, LLC. He is a registered professional engineer and a mining engineering graduate of West Virginia University.

He grew up in the family coal mining business and, as president and CEO, he has grown Mepco's coal and aggregates operations to become among the largest independent operations in the northeastern United States.

In 2013, Mr. Laurita ventured into the oil and gas well completion and intervention services business, concentrating in the local Marcellus and Utica shales.

He was the visionary and founder of the long-term strategic plan to build the Longview "mine mouth" power plant in Morgantown, West Virginia that began commercial operations in 2012 and is one of the cleanest and most efficient coal-fired power plants in the world.

His current interests are in the development of new coal and oil and gas reserves and service operations in the Northern Appalachian Basin.

Mr. Laurita is chairman of the board of the West Virginia Coal Association and the Family Policy Council of West Virginia.

The topic of the future of coal in America has been debated for decades, particularly surrounding the Clean Air Act of the 1990s and 2000s. However, it has been more heavily scrutinized and subjected to an "anything but" agenda under the current administration of President Barack Obama than any previous period.

The population centers (i.e., majority of voters) of our country are generally energy consumers, not producers, and therefore are only remotely familiar with what it takes to supply their appetite for low-cost energy. The fact remains that only a small percentage of the U.S. population actually knows how their energy is sourced and produced, and in particular, few know how coal is used. These individuals have been buying into the notion that coal is a fuel of the past, despite the fact that the rest of the world is increasing its reliance on this low-cost and dependable fuel, as we have for many decades.

When the horse and buggy and the steam locomotives were abandoned, it was because new, more efficient and lower cost means of transportation were invented. That's not so with

coal today. On the flip side, politics and policy of a minority of elitists are the reason for the season. Domestically, we – through the actions of our federal administration – have been picking favorites. Renewable energy forms are incapable of meeting the country's energy demands and cannot compete with coal or gas unless substantially subsidized – and such subsidies are equivalent to a coal or gas plant receiving its fuel for free.

We, as Americans, are quickly approaching a dangerous tipping point: energy poverty and a lower standard of living for the sake of energy forms perceived as more environmentally friendly. Sure, clean energy sounds great, and we all want it. However, do we really understand the cost benefit of a utopic ultra-clean energy policy? Have we forgotten that our air and water are the cleanest they've been in 40 years, in large part as a result of the coal industry's more progressive environmental undertakings? The undeveloped nations want a higher standard of living, like we have, and they understand that there is a balance to low-cost energy and protecting the environment – and energy and steel derived from coal will help them get there.

Substantially reducing our reliance on low-cost, secure, and dependable energy forms (coal, nuclear, natural gas) and switching to the perceived, more environmentally friendly and less dependable forms (wind, solar) – no matter the costs – has us blindly traveling the path of a lower standard of living. The environmental consequences of a lower standard of living are substantially higher than that of burning fossil fuels. Take a look at what has happened in the European Union and the facts speak for themselves. Germany and Poland are now building a fleet of new, efficient and clean coal-fired power plants to reduce their energy





costs and regain their financial foothold in the world after a decade of failed ultra-green energy policies, and a reduction in the standard of living. Athens, Greece now has record amounts of air pollution, due to the populace's reversion back to burning wood to heat their homes.

Sounds simple, and most Americans, if they really understood the cost benefits of the choices before them, would agree that a balanced energy plan, which includes coal, would seem to be the logical path. It sure did to me, as I began thinking about the merits of a new, modern and substantially more efficient coal-fired generation plant with state-of-the-art environmental controls nearly two decades ago. Fast forward to today. The Longview power plant is one of the cleanest coal-fired plants in the world, with a small fraction of emissions, compared to its peer group. No doubt, Longview has had its mechanical issues. However, those issues will be fixed, and the plant represents what should be our view of coal's contribution to a balanced energy portfolio of the future.

There's no doubt coal has had its fair share of economic challenges as of late. Reduced electrical demand associated with the recession, heavy manufacturing moving off shore, demand response, energy efficiency initiatives, and lower-cost natural gas, on top of a plethora of new environmental regulations on producing and consuming coal have all reduced the demand for coal-fired energy.

New nuclear energy will continue to flounder due to the perceived public health risks and associated extraordinarily high construction costs, and gas and coal will compete head-to-head for their share of the electrical generation pie. The 2013-2014 winter seriously strained the nation's electrical grid as coal-fired generation units have been retired and not replaced due to the pending environmental restrictions. The radical portion of the environmental community has been lamenting that natural gas is coal's biggest foe, and not the environmental community. However, population centers, particularly in the northeast, are now contending with skyrocketing energy bills associated with decreasing energy supplies (specifically coal-fired generation) and increasing gas prices. The uninformed are now beginning to realize that our national policies are failing before their very eyes.

Are we too late, as a nation, to change the outcome? No, I believe voters will ultimately vote with their wallets. We are in store for more violent energy swings in the months and years to come, and I hope commonsense prevails at the end of the day, and we can once again restore practical energy policies.

Where does that leave domestic coal production in the meantime? Regional shifts in coal production, from the low sulfur coals of Central Appalachia, to the Illinois Basin, Powder River Basin and Northern Appalachia, have been in

the process the past few years. Central Appalachian production, with its inherently lower sulfur content, yet higher cost structure, has been severely dented by the implementation of scrubbers at many coal-fired generation stations, and the appetite for the lower costs of production of the other basins.

The soon-to-be-implemented, new Mercury and Air Toxic Standard (MATS) rules will no doubt reduce the domestic consumption of coal another notch when the rules become effective in the 2015-2016 timeframe. The coal units that survive post-MATS will end up running at higher capacity factors, as a result of higher energy prices and, therefore, consume additional volumes than previously. Interestingly, increasing global coal consumption and the associated increasing exports has and will continue to mitigate the domestic decline to some extent.

It's anybody's guess at this point. However, the coal industry and the government's Energy Information Administration believe that the industry will only be approximately 10 percent smaller in 2016 than it was in 2008, before the recession began. If this past winter has provided a sneak preview of the future of energy price volatility, the voters will eventually embrace the secure, low cost, and reliable energy that coal provides once again ... stay tuned. ▽