

Statement by
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House Committee on Resources
House Subcommittee on Energy & Mineral Resources
April 28, 2005
Oversight Hearing on
“Improving the Competitiveness of America’s Mining Industry”

Summary Remarks

Thank you, Mr. Chairman and members of the Subcommittee. The coal, utility and transportation industries represented by the American Coal Council are grateful for the opportunity to address the House Energy & Mineral Resources Subcommittee.

We appreciate being able to present our perspective on how best to meet America’s future energy needs. We believe those energy needs can be met through the use of domestic coal resources – our nation’s most economic, secure and environmentally sound energy source.

Coal supplies 52% of our nation’s electricity. By 2025, demand for electric power in the U.S. is expected to increase 50%. Coal is expected to generate more than half of that increased demand. In 2025, electricity generation will require more than 1.4 billion tons of coal supply – about 42% more than what is used today.

To remain competitive, America’s coal industry needs:

- More efficient coal leasing provisions.
- A streamlined approach to permitting and environmental compliance.
- Improvements to our nation’s transmission and transportation infrastructure.
- Support for academic programs that will bolster the mining industry’s dwindling workforce.

Coal Leasing

Approximately 40% of current U.S. coal production is from mines located on federal lands. More than one-third of the nation’s coal reserves are on lands owned or controlled by the federal government.

The Mineral Leasing Act of 1920 must be updated. Certain provisions in the Act impede operational flexibility, result in the bypass of nearby federal coal resources, compel inefficient production and reduce federal and state royalty and tax revenues. The minor, but important, technical changes contained in the Energy Policy Act of 2005 will ensure maximum and efficient recovery of federal coal reserves.

Permitting & Environmental Compliance

The coal industry appreciates the efforts of the recently launched bipartisan Task Force on Improving the National Environmental Policy Act (NEPA) established by the House Resources Committee. The initiative to visit and document how the Act is working in various regions will assist in developing constructive alternatives that avoid costly litigation and make public participation in environmental decision-making more efficient, while retaining environmental protection objectives.

Efforts to update and improve the Endangered Species Act will also provide new tools and faster ways to ensure species recovery. Taking advantage of state and local expertise, along with providing incentives to speed federal decision-making, will more quickly and efficiently advance the original objectives of the ESA.

Transmission and Transportation Infrastructure

U.S. transmission investment has declined over the past 25 years. Industry analysts project that more than \$50 billion will need to be invested in U.S. transmission between 2004 and 2030 to maintain the current system and add new capacity to our transmission grid. Provisions to accelerate depreciation of transmission infrastructure will provide an incentive to ensure these much-needed incentives.

America's inland waterways system is a vital part of our coal transportation infrastructure. The marine transportation system moves about 280 million tons of coal per year over our nation's waterways. The Inland Waterways Trust Fund now has a surplus of \$300 million. The coal industry needs those funds to be freed up so that the Army Corps of Engineers can proceed with vital waterways projects.

Labor

A dwindling pool of skilled workers in the mining industry is substantially increasing competition for labor in our nation's coalfields, in addition to raising the cost of production for U.S. coal producers. Mining schools and mining engineering faculty are dwindling, jeopardizing the future availability of engineering and technical workers. Representative Conaway's amendment to the Energy Policy Act will help evaluate the availability of skilled workers to meet our nation's energy security needs. Funding is needed for academic mining research; our nation's mining engineering programs depend on this type of support.

The future of the nation's coal mining industry is also closely tied to the viability of our utility and industrial coal consumers. Their efforts to develop new coal generation, using environmentally sound clean coal technologies in compliance with established, clearly defined emissions control standards, are critical to the continued health of our mining industry.

I'll conclude by noting that U.S. coal producers are experiencing significant increases in their operating costs, many of which are linked to global market factors. Of note is the increased price of diesel fuels, steel and tires, resulting from the high price of oil and unprecedented demand in developing nations, such as China. Unprecedented growth in Chinese coal production is increasing operating costs for our nation's coal producers. Decisions made in Beijing are being felt in Morgantown, West Virginia and Gillette, Wyoming.

Improving the efficiency of our nation's regulatory and legislative processes, undertaking efforts to enhance our mining labor force, improving our nation's transmission and transportation infrastructure and advancing the use of clean coal technologies will strengthen the U.S. coal industry. We'll be better able to address global challenges and continue to meet our nation's increasing need for secure, economic and environmentally sound energy.

Thank you.

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Statement for the Record

The American Coal Council (ACC – www.americancoalcouncil.org) represents the interests of 145 of our nation's coal suppliers, coal consumers and coal transportation companies. The ACC welcomes the opportunity to present a perspective on how best to meet America's future energy needs. We believe those energy needs can be met through the use of domestic coal resources – our nation's most economic, secure and environmentally sound energy source.

This hearing was convened to address what can be done to improve the competitiveness of the U.S. mining industry. To remain viable, America's coal industry needs to contain rising operating costs, streamline permitting and environmental compliance, improve transmission and transportation infrastructure and ensure an adequate supply of labor in order to develop much needed new supplies. The future of the nation's coal mining industry is also closely tied to the viability of our utility and industrial coal consumers. Their efforts to develop new coal generation, using environmentally sound clean coal technologies in compliance with established, clearly defined emissions control standards, are critical to the continued health of our mining industry.

The viability of America's coal and utility industries are critical to our nation's economic well being. They're also vital to our efforts to maintain a leadership role in environmental stewardship. Preserving the central role of coal in the U.S. energy mix, will foster our nation's economic prosperity, ensure a secure domestic supply of energy and advance our efforts to meet our environmental objectives.

An economically secure nation is a nation most able to set and achieve high standards of environmental stewardship. Impoverished, developing nation's intent on advancing their economic objectives tend to be less intent and

less concerned with ensuring environmental sustainability. The U.S. continues to lead the world in establishing and achieving environmental standards, many of which are made possible as a result of the economic prosperity we in U.S. have realized because of the availability of inexpensive electric power. Much of that inexpensive power is generated by coal.

Over the years, a number of factors have strained U.S. electricity markets. Political instability in the Middle East, natural gas shortages and increasingly stringent environmental legislation contributed to a national economic downturn in the U.S. The economic downturn I'm referring to occurred in the 1970s – and again in the year 2000. The pattern is clear – our nation's dependence on foreign energy and natural gas, and our inability to establish clear and definitive environmental standards is jeopardizing our economic well-being.

Since the 1970s, the consumption of energy in the U.S. has outpaced supply. Energy consumption between 1970 and 2003 increased 41%. That's not surprising given that during this same time the U.S. GDP increased 158%, the population increased 38% and registered motor vehicles increased 99%. This gap between domestic production and domestic consumption has fostered a continued and increased dependency on foreign energy sources.

In response to the U.S. energy shortfall in the 1970s, the U.S. coal industry responded with the development of large coal-based power plants and an increase in coal production. The industry also worked to increase capacity utilization, which rose from 59% in 1990 to 70% in 2000. Today, we're approaching capacity utilization factors of up to 80-85%. That's good news – the bad news is that this is the effective utilization limit – we'll be unable to squeeze much more capacity out of our existing units in the future. When the effective limit is ultimately reached, we'll be short of low-cost, baseload electric generating capacity.

Natural gas does NOT offer a solution. In fact, there has been a significant over-build of natural gas power plants in the U.S. since the 1990s. Gas plants have been quicker and easier to build and finance. U.S. energy policy has encouraged gas power, based on the false assumption that natural gas prices would remain low.

From 1998 to 2003, over 140 GW of new natural gas-fired generation capacity was commissioned. Today, much of that capacity is idled or underutilized because of the price of natural gas.

According to the Energy Information Administration (EIA), between 1992 and 2002, the demand for natural gas increased by 2.23 billion cubic feet/day – nearly 94% of that increase is attributable to the use of natural gas for electric generation. The increased demand for natural gas from the generation sector has shifted limited supplies away from industrial applications. This shift, combined with the high cost of gas has forced the closure of many industrial facilities or the relocation of gas-dependent industries to less expensive, off-shore locations. Since June 2000, 2.7 million manufacturing and industrial jobs have been lost as a direct result of increased gas prices. For example, natural gas presently accounts for 90% of the cost of nitrogen fertilizer production, which increased from \$80/ton in the 1990s to more than \$300/ton in 2004. As a result, 30% of U.S. nitrogen fertilizer production has moved overseas.

Reliance on natural gas for electric power imposes an economic penalty on U.S. industry. Our nation's abundant coal resources can meet increased U.S. electric demand, freeing up supplies of natural gas for feedstock and industrial applications, thus enhancing our economic competitiveness.

The increase in natural gas power plants has also resulted in an under-investment in coal generation. In 2000, 300,000 MW of new generation capacity was announced, planned or in construction – including 24 coal plants. Gas prices rose in 2000-2002 and contributed to an economic recession in the U.S., with a concurrent decrease in electric demand. Bankruptcies and credit problems plagued the electric generation industry and plans to deregulate the industry were retracted or shelved by many states.

The effect of this was that all new power plant construction was curtailed, especially the more capital-intensive projects – such as coal-fueled generation. Beginning in 2003, the U.S. started to experience an economic rebound. The demand for electric power returned, but has continued to be hampered by high oil and natural gas prices.

Coal's an obvious choice for meeting increased electric demand in the U.S. In fact, states that choose coal for their generation have lower-cost electricity. For example, Wyoming, which relies on coal to supply 96% of its electric power needs, has the lowest cost of electricity in the nation at 4.8 cents/kwh. California, which only uses 1% coal generation, has the highest electric rates in the nation – at more than 11 cents/kwh.

While gas prices continue to soar, coal has historically and will into the future remain the lowest cost source for generation. EIA is projecting that by 2025, coal will remain at \$1.25 per million BTU while gas will increase to \$4.75 per million BTU. Many industry analysts believe gas prices will be even higher – possibly more than \$6.00 per million BTU.

The environmental challenges of coal utilization certainly should not be overlooked, but neither should the impressive reductions that coal-fueled power plants have already achieved. There's a clear disconnect in the U.S. between the public perception of our environmental management programs and the reality of their success. Seven out of 10 U.S. citizens believe overall air quality has either diminished or stayed the same, according to a recent public opinion poll commissioned by the Foundation for Clean Air Progress (www.cleanairprogress.com).

The facts indicated otherwise. Since 1970, emissions of SO₂ have decreased 39%, particulate emissions declined 75% and lead dropped 98%. NO_x emissions have decreased 33% since 1990. New regulations will reduce these emissions even further and ensure reductions in mercury emissions as well. It's important to note that these impressive emissions reductions to-date have been achieved at the same time that U.S. energy use has increased by over 40%.

Clearly, coal consumers need regulatory certainty with regard to future emissions control standards in order to ensure adequate generation capacity is available to meet our future energy needs. Coal producers also need this regulatory certainty in order to make decisions and secure investment support for the development of new reserves. Investment in future coal production is closely linked to the viability of U.S. utility and industrial consumers.

Continued efforts and funding to develop, deploy and commercialize a suite of advanced clean coal technologies will enhance the competitiveness and viability of our nation's coal industry. The Clean Coal Power Initiative, Clean Air Coal Program and coal research and development provisions included in the House-approved Energy Policy Act (HR 6) will encourage electric generators to install advanced technologies that are the most effective means of controlling emissions from coal-fueled power plants. The utility-coal industry appreciates the efforts of the House to support and further enhance these initiatives.

Coal currently produces more than half of our nation's electricity – and it's expected to generate one half or more of the 50% increase in electric power the country is projected to need by 2025. By the year 2025, electricity generation will require more than 1.4 billion tons of coal – about 42% more than what is used today.

EIA is projecting that 112 GW of new coal generation could come on line by 2025 – representing about 42% of the new electric generation needed in the U.S. At the beginning of this year, plans were announced to build more than 100 coal-fueled power plants totaling 65 GW.

Fortunately, the U.S. coal industry has the ability to meet this need. Coal comprises about 85% of the fossil fuel reserves in the U.S. At current consumption levels, we have enough coal to last nearly 260 years. By comparison, accordingly to many energy analysts, we have less than 12 years of proven oil supplies in the U.S. and under 10 years of natural gas.

As we did in the 1970s, the U.S. coal supply industry stands ready to meet the demand for increased production, assuming a number of challenges can be addressed.

Coal Leasing

Approximately 40% of current U.S. coal production is from mines located on federal lands; more than one-third of the nation's coal reserves are on lands owned or controlled by the federal government. To ensure development of federal coal reserves in an orderly and efficient manner, the Mineral Leasing Act of 1920 must be updated. Certain provisions in the Act impede operational flexibility, result in the bypass of nearby federal coal resources, compel inefficient production and reduce federal and state royalty and tax revenues. The minor, but important, technical changes contained in the Energy Policy Act of 2005 will ensure maximum and efficient recovery of federal coal reserves.

Permitting & Environmental Compliance

The coal industry appreciates the efforts of the recently launched bipartisan Task Force on Improving the National Environmental Policy Act (NEPA) established by the House Resources Committee. NEPA's current implementation raises concerns that environmental impact analyses often add needless costs without providing adequate environmental benefits. NEPA is often used today as a tool to block rather than assess proposed mining operations, curtailing efforts to maximize coal production in the U.S. The initiative to visit and document how the Act is working in various regions will assist in developing constructive alternatives that avoid costly litigation and make public participation in environmental decision-making more efficient, while retaining environmental protection objectives.

The industry also appreciates efforts to update and improve the Endangered Species Act (ESA) to provide new tools and faster ways to ensure species recovery. Taking advantage of state and local expertise, along with providing incentives to speed federal decision-making, will more quickly and efficiently advance the original objectives of the ESA.

Transmission and Transportation Infrastructure

We've seen a steady decline in U.S. transmission investment over the past 25 years. In 1975, \$5 billion was invested in transmission; today, our nation is investing barely \$2 billion a year. Industry analysts project that more than \$50 billion will need to be invested in U.S. transmission between 2004 and 2030 to maintain the current system and add new capacity to our transmission grid. Provisions to accelerate depreciation of transmission infrastructure will provide a incentive to ensure these much-needed incentives.

America's inland waterways system is a vital part of our coal transportation infrastructure. The marine transportation system moves about 280 million tons of coal per year over our nation's waterways. An adequately funded and well-maintained water resource system is critical to our ability to transport coal to our nation's power plants. Efforts must be undertaken to address the critical backlog of construction and maintenance projects on U.S. locks and dams.

Inland waterways users currently contribute a 20-cent per gallon fuel tax to the Inland Waterway Trust Fund, which pays for half the cost of construction and rehabilitation of locks and dams. That Trust Fund now has a surplus of \$300 million. The coal industry needs those funds to be freed up so that the Army Corps of Engineers can proceed with vital waterways' projects.

Labor

A dwindling pool of skilled workers in the mining industry is substantially increasing competition for labor in our nation's coalfields, in addition to raising the cost of production for U.S. coal producers. High salaries, sign-up bonuses and other incentives are currently being offered, but provide only an interim solution to the long-term problem of training and educating tomorrow's mining industry workforce. Mining schools and mining engineering faculty are dwindling, jeopardizing the future availability of engineering and technical workers. Funding is needed for academic mining research; our nation's mining engineering programs depend on this type of support.

Representative Conaway's (TX) amendment to the Energy Policy Act would serve to evaluate and report on the short-term and longer-term availability of skilled workers to meet our nation's energy security needs. The joint initiative of the Departments of Energy, Labor and Interior will provide a much-needed assessment of our industry's labor needs and assist in formulating strategies and tactics to address this challenge.

Operating Costs

U.S. coal producers are experiencing significant increases in their operating costs, many of which are linked to global market factors. Of note is the increased price of diesel fuels, steel and tires, resulting from the high price of oil and unprecedented demand in developing nations, such as China. Tire costs, for example, have skyrocketed over the past year to \$30,000 from \$22,000 a year ago and \$12,000 a couple of years ago. In 2004, Chinese coal production increased by 200 million tons to 1.5 billion tons. China coal demand, which is growing by 100 to 200 million tons per year, has resulted in an increased demand for mining equipment and fuel. With only two tire production facilities in the world capable of serving this industry, coal producers in the U.S. are anticipating a tire shortage and continued price increases.

Global markets are having an increasing impact on the U.S. coal industry. Decisions made in Beijing are being felt in Morgantown, West Virginia and Gillette, Wyoming. Improving the efficiency of our nation's regulatory and legislative processes, undertaking efforts to enhance our mining labor force, improving our nation's transmission and transportation infrastructure and advancing the use of clean coal technologies will strengthen the U.S. coal industry. We'll be better able to address global challenges and continue to meet our nation's increasing need for secure, economic and environmentally sound energy.

In November 2004, the National Coal Council (www.nationalcoalcouncil.org) presented a report to the U.S. Secretary of Energy identifying opportunities to expedite the construction of new coal-based power plants. The report noted that "the increased use of vast U.S. coal resources represents the single most effective step the U.S. can take to ensure energy security, low-cost energy, reliability and sustained economic growth."

We appreciate the House Subcommittee's efforts to help achieve these objectives.

Thank you.

Janet Gellici

