

Tom Power - March 05, 2007

Coal Industry Layoffs

Layoffs in the Montana Coal Industry amidst an Energy Boom?

Last week the Bull Mountain coal mine outside of Round Up laid off most of its workers and shut down most of its coal production. Given that this mine had been singled out as the site for Governor Schweitzer's coal-to-liquid demonstration project and the owners had been promising dramatically increased production, this appeared to be a startling reversal of the coal boom that is supposed to be just around the corner in Montana.

Other ominous signs for a Montana coal revival also cropped up last week. A technical analysis was released of the proposed Highwood coal-fired electric generating facility that the City of Great Falls and a group of rural electric cooperatives would like to build outside of Great Falls. That report estimated that the cost of the facility could be 40 percent or \$200 million higher than previously forecast.

Meanwhile new owners have announced that they will revive the mothballed electric generation site outside of Great Falls that NorthWestern Energy was originally going to use for a gas-fired plant but later abandoned. The new owners intend to revive it as a 550 MW plant, over twice as large as Highwood plant, using integrated gasification combined cycle technology fueled by both coal and natural gas.

Clearly energy market forces are conflicting and confusing. The coal boom is being at least partially smothered by market uncertainty about future energy prices, the cost of building and operating new plants, and the future costs associated with carbon control and capture to mitigate global warming. When oil prices a year ago jumped from \$60 to almost \$80 per barrel and seemed to be on a permanent upward swing and natural gas prices seemed to be following suit, coal looked very attractive as a domestic substitute for imported oil and costly natural gas. That was part of the impetus for Governor Schweitzer's push for "clean coal" development in Montana. It seemed that coal's time had finally arrived. Soon, however, oil prices had tumbled to as low as \$50 a barrel. The oil price trend was not just steeply upward; it also had a downside.

It should not be surprising to find the gloss on coal tarnishing a bit as oil prices came down and coal prices followed suit. The Bull Mountain Mine is not the only mine in the nation that is laying off workers. In 2004 Montana and Wyoming coal was available at \$5 a ton. At the beginning of 2006, it was selling at a price four times that, \$20 per ton. That was peanuts compared to Appalachian coal that at its peak was selling for \$65 per ton. Owners of undeveloped coal salivated at those prices and made plans to bring more coal mines on line. But, in general, mothballed coal mines beat them too it, as old coal capacity was quickly brought back on line and coal prices tumbled downward. In Montana and Wyoming coal

prices fell to half their peak value, to \$10 a ton. It has been those lower coal prices and limited demand that put the Bull Mountain coal mine out of business. Now the future demand for coal does not look quite as certain as it used to. Almost a dozen proposed coal-fired plants in Texas were recently abandoned by the new owner of the utility that had proposed to build them, bowing to environmental, consumer, and regulatory concerns. The fact is that no one knows what coal-fired electric generation is going to cost. Whatever it is, it is not going to be any where near as cheap as coal enthusiasts have suggested. The rising cost of construction, including steel and copper, along with the higher but uncertain cost of the coal fuel, are big question marks. But the biggest uncertainties are the costs associated with pollution control, including the cost of controlling or capturing carbon as well as the more traditional concerns about reducing the releases of mercury, sulfur oxides, and particulate. Carbon regulation seems certain at this point, but it is hard to predict what form it will take and what costs it will impose on coal-fired electric generation.

For those reasons, it is not clear that a conventional coal-fired plant built today would produce electricity at bargain prices or produce any profit at all for its investors. If the coal-fired plants come in at very high construction costs and then have to be fuel by expensive coal and, in addition, have to be retro-fitted with carbon capture systems or pay a stiff regulatory cost, state regulators may be less than sympathetic when the investors ask to recover those very high costs from customers. We may be back in the battles of the 1980s, when regulators forced owners of new electric generators to eat a significant portion of the unexpectedly high costs, eliminating profits altogether and replacing them with losses.

Those concerns are giving electric utilities pause as they contemplate adding new coal plants. Some investors, such as the new owners of the First Megawatt site outside of Great Falls, are turning to integrated coal gasification to take advantage of its expected improved emissions, including the possibility of capturing the carbon, not to mention taking advantage of the tax breaks the federal government is expected to provide to encourage more commercial experience with that technology.

Whatever the role of coal in our energy future, it will not be more of the same conventional coal-fired generation such as the Highwood plant proposes. And it will not be either cheap or stably priced. Electric developers, regulators, consumers, and markets are just beginning to wrestle with the far more complex economic and environmental context into which coal will have to fit. A rush to build now with the old technologies will almost certainly be a costly mistake, both environmentally and financially.