STRATEGIES FOR AMERICAN COAL

NMA President and CEO Hal Quinn:

Thanks, Phil. It's a privilege to be here with you all this evening.

I bring you warm greetings from the nation's capital – but of course, no solutions from the nation's capital. You may expect lots of things from Washington these days but probably not solutions.

The nation's economy is weak, and its regulations are powerful. This suggests we have our priorities backwards.

But it's not all Washington's fault. For the first time in memory, there is no consensus among economists on how to fix our problem. So when politicians can't decide between fiscal stimulus and deficit reduction, they only mirror the confusion among the economists.

Someone said if you laid all the economists end to end … it would be a good thing.

Former Defense Secretary Gates' has another explanation. He says the reason so many people in Washington appear lost in thought is because it's unfamiliar territory to them.

Still, NMA is looking for solutions in a troubling economy and a troubling regulatory environment. I believe we will find them in several strategies I want to discuss with you this evening.

But first, let's take a closer look at what we confront.

Congress is about to return after the August recess – to an economy even weaker than the one we had before they left town. All eyes will be on the Super Committee – these are the 12 members of the House and Senate named by the congressional leadership to trim $1.5 trillion from the federal deficit by Thanksgiving.

They will return from a dismal Labor Day. A lousy economy brings terrible job numbers. The 9 percent jobless rate masks the extent of the crisis now in its third year. If you include part-time workers with those who've dropped out of labor market, the real jobless rate is about 16 percent.

A lower percentage of working age Americans is employed full time today than at any time in past four decades.

Meanwhile, in the middle of the biggest job crisis in the post-war period, we face an adversarial regulatory culture. And that does not encourage economic growth, much less the job gains that come with it. The Small Business Administration estimated the federal regulatory burden today costs the U.S. economy $1.75 trillion annually. Even at a time of trillion-dollar budget deficits, that's serious money – working out to about $8,000 per employee.

This burden falls heaviest on industries like coal mining that must make regulatory filings and obtain government approvals for even the slightest changes in operating plans.

But here's the good news – and it will surprise some people. There is an industry that is actually growing jobs – and it's not favored by subsidies or by regulation. It's the coal industry.

Last month, the Department of Labor found the natural resources sector led U.S. jobs growth in the past decade – topping even health care and education. And coal helped drive this performance.

The Labor Department said coal employs 86,000 Americans directly. That's a 6.7 percent increase over last year, at an average annual wage exceeding $73,000. Here in Illinois, coal accounts for 5,000 jobs – paying an average of about $90,000 a year against the all-industry average of $56,000.

The number of coal jobs could be higher if the Sierra Club wasn't so successful in killing them. The Sierra Club boasts about all the coal-based power projects its lawyers have stopped. What they don't boast about is all the jobs destroyed along with those power plants. NMA did this calculation for them. Using their own tally of the projects they've stopped – together with the Energy Department's data on jobs supported by such plants – NMA found that the Sierra Club has cost Illinois more than 16,400 permanent jobs – more than any other state the club has targeted. With 14 million Americans struggling to find meaningful employment, we understand why the Sierra Club is silent on this point.

We also have a modest suggestion for an administration desperate to see signs of job growth: Don't look at the green jobs market that has struggled to produce the jobs promised. Look at the mining sector to see jobs being created. Then see how a less adversarial approach to coal can lead to even more of them.

A study done for NMA, by Energy Ventures Analysis Inc., shows the scale of jobs created with new coal technology options – the kind Illinois is creating at Leucadia near Chicago and with Power Holdings down state. The study found that the most construction jobs and related employment come from coal projects – between 7,600 and 8,300 jobs per billion dollars invested. The lowest construction related employment came from wind projects – at 950 jobs per billion invested.

This isn't an argument against wind power – it's an argument for coal power. One example is an advanced coal project like Prairie State in Southern Illinois.

- This 1600 MW facility – the largest coal plant in the U.S. – will also be among the cleanest when it begins operations early next year thanks to its super-critical pulverized coal technology and advanced emissions control systems.
- The plant also employs about 4,000 throughout its multi-year construction – injecting $4 billion into the state's economy.

This example of coal's ability to generate jobs points to its resilience in the face of a weak economy and a hostile regulatory climate. What's behind this resilience?

First, despite conventional wisdom, coal-based capacity is growing, not shrinking. Last year, coal-based power added more than 6,600 megawatts … the largest capacity addition since 1985. The Energy Information Administration projects another 6500 megawatts will come on line this year and next. More than a fifth of all generating capacity now under construction and slated to come on line by 2014 will be coal-based.

A second reason for our resilience is that the world demands more of the coal we produce. Largely thanks to a robust export market, Eastern coal production at mid-year rose slightly over year-ago levels. Export shipments this year may total 100 million tons. That would be the highest volume in 20 years.

Despite our slow-growing economy, in regions with the most coal-based capacity, electricity generation through July actually increased by 3.8 percent. Everywhere the hunger for energy sharpens the appetite for coal. Developing countries are virtually throwing a party for U.S. coal.

China, the world's second largest economy, is lighting up scores of giant new cities with coal – and builds them with steel made with American coal.

The rest of Asia is increasingly turning to imported coal. Coal now generates 65 percent of India's electricity. The country's fast-rising middle class is driving plans to double the size of its power grid by 2025. The new industrial revolution sweeping over Asia is creating affluence on a massive scale. That fuels demand for cell phones, air-conditioning and other trappings of Western living standards – as well as the affordable electricity that coal provides.

The increasing appetite for coal is not confined to the developing world. Japan, after the Fukashima disaster, is expected to increase its coal imports by 20 percent to replace part of its nuclear capacity. Already the EU, including Germany, is burning more coal in response to rising concerns about the future of nuclear power on the continent.

No wonder the EIA forecasts coal will remain the dominate fuel source for electricity generation through 2035 – both in the U.S., as well as the rest of the world.

But this favorable outlook leads us to a dilemma. How does a coal-rich nation like ours capture these opportunities with public policies that oppose coal production and use? History offers few clues. There is virtually no precedent for a government that thwarts development of one of its most abundant and valuable national resources.

I think there are at least three strategies we must adopt to help us address this dilemma and assure our future vitality. None of these themselves will do the trick, but all together just might.

The first strategy is obvious: We need a more positive, less adversarial regulatory environment. Phil calls today's federal regulations "an assault on coal." Others in our industry, and some in Congress, describe a "war on coal".

Our critics discount this talk, suggesting we're just paranoid. But as we know, even paranoids have enemies.

Here are a few of the regulatory challenges that justify our apprehension – and why regulatory reform must be part of the solution:

<u>Air</u>

A brace of pending rules from EPA to control power plant emissions aims at substantially reducing the usage of coal for electric power. These include:

- The utility MACT for controlling hazardous air pollutants. It poses standards that the coal fleet cannot meet.
- The Cross State Air Pollution rule proposes tougher standards for conventional pollutants.
- And the GHG rule for large stationary sources.

All are converging on the coal-based fleet. Altogether they could force at least 51 GW of coal capacity in 37 states into retirement by 2020 (Fitch Ratings). Now you know why these rules are called the "Train Wreck."

<u>Water</u>

Turning to water rules, EPA is proposing to restrict coal permits under new guidance now in use throughout Appalachia. EPA uses this guidance in lieu of formal rulemaking that requires stakeholder involvement. NMA has taken EPA to court, challenging both the legality and the ostensible science underlying this guidance.

The agency also proposes significant increases in the waters of the United States that it claims for its regulatory jurisdiction. And we are trying to force the Office of

Surface Mining and Reclamation into retreat from a rule it proposed forbidding mining around streams that its consultants admitted would cost thousands of jobs in Appalachia.

Our response to this is plain.

We can and should continue to make environmental progress. But this progress should be accomplished in ways that sustain a robust coal industry – one that can serve a big domestic market … a growing international market … and continue to create superior employment opportunities for America's workers.

Regulatory Reform

A first step would be to ensure that regulators examine the cumulative costs of multiple regulations on the regulated industry. This would measure the cost of regulations as they are actually experienced in the real economy, by real businesses – and not as they appear on a computer screen in Washington.

The absence of this cumulative assessment of regulatory costs undermines the credibility of the government. It grossly understates the true costs to the economy and to employment. The Federal Energy Regulatory Commission has already questioned the future reliability of the nation's power grid once these rules are implemented. FERC concluded up to 81 GW of coal-based power is "likely" or "very likely" to be retired. This is not a *de minimus* impact, as EPA has suggested.

When we turn to the benefit side of regulation, we see another problem: there's no honest accounting of the cost-benefit relationship. Instead, regulators are double-counting the benefits. The presumed health benefits of several different rules are applied against the economic costs of each individual rule. In short, benefits are accumulated; the costs are not. This explains why EPA and its allies can claim that health benefits outweigh the expected costs. By this accounting gimmick, the public is deprived of any meaningful assessment of regulatory costs.

Finally, let's improve the regulatory climate by returning more authority to the states as Congress intended. Under the Clean Water Act and the Clean Air Act, states set environmental standards. State environmental agencies are closer to, and therefore more familiar with, regional conditions. They are able to balance environmental with economic interests better than distant federal agencies not beholden to voters or sensitive to local concerns.

So loosening government's regulatory grip on coal mining is one strategy. A second strategy involves us. We must do a better job of managing our own affairs.

Mine Safety

Nowhere is this challenge clearer than in making our mines the safest in the world. Ensuring the safety of our workforce and minimizing the risks they face on every shift must remain our highest priority.

Over the past decades our progress has been impressive by most measures.

- Already, 67 percent of all coal mines operated without a single lost-time injury in 2010.
- Since 1990, we have cut coal mining fatalities by 27 percent and our injury rate by 36 percent – and since 1980, we've cut them in half.

But in mine safety, a good record is not a satisfactory one.

Achieving a great safety record requires new solutions. Compliance with mine safety regulation is only a part of the solution – and frankly it may only be a minor part. The larger part is building a culture of safety, a commitment from each mining operation to scrupulously follow comprehensive safety practices.

Until the entire industry embraces this commitment, our safety progress may be steady and our record good. But our progress will not be satisfactory or our record the world's best.

To get us there, our leadership is looking beyond regulatory compliance and beyond our industry's habitual practices. We're examining new approaches – some from outside our industry – that could become the foundation of a new voluntary commitment to mine safety.

Technology

A third strategy to ensure our future vitality is just as important but requires partnerships with government. We need a stronger national commitment to deploy advanced coal technologies. Accelerating the deployment and commercialization of advanced pulverized coal and gasification technologies is in the national interest of a country with the world's largest coal reserves.

Super-critical pulverized coal plants already achieve efficiency improvements of 22 percent over the current coal fleet. Ultra super-critical improves efficiency by almost a third. New coal plants are also cleaner, emitting 90 percent fewer pollutants per unit of electricity than the plants they replace.

Here in Illinois, 60 percent of the existing coal fleet is 40-years-old or older. The proposed 625 MW Taylorville plant could provide base-load power to replace much of this generation. It's gasification technology would produce clean electricity and enable Illinois to use its high sulfur coal in the bargain.

Taylorville, Prairie State and the smaller gasification plants I mentioned earlier testify to the potential of Illinois as an incubator of next-generation clean coal technology. The Future-Gen 2.0 facility in Morgan County, Illinois, showcases how private industry and government can collaborate to create clean energy projects. FutureGen virtually turns smoke takes up-side down, storing greenhouse gases underground and eliminating the plant's emissions. And as it generates clean power using Illinois coal, it also generates 2,000 jobs for Illinois workers.

The future of energy is here with a vast resource under our feet. But will we seize this potential?

It would be a fundamental error if the United States were to substitute heightened regulatory compliance – with all its attendant costs and inefficiencies – for a stronger commitment to clean coal technologies. For example, if pending air quality regulations destroy a fifth of the state's coal based capacity as feared, state authorities (Illinois Power Agency) expect utility bills here could jump by 65 percent in five years.

Placing a bet on American technology, innovation and ingenuity is smarter than betting on a bureaucracy and its regulatory apparatus. It shows confidence in what Americans do best.

That's why I believe regulatory reform, improvements in mine safety and a stronger commitment to advanced coal technologies are responsible strategies. They will help us use an energy source we have in greater abundance than any other country -- an energy source the rest of the world wants more of.

But these strategies cannot be implemented so long as our energy and environmental policies are held hostage by an adversarial relationship between government and industry.

Such a relationship is unnecessary to sustain environmental protection – and impossible if coal is to help grow our economy and continue to create jobs.

So with that, let me thank you again for this invitation. I hope now you why I say that NMA does the Lord's work in the city of the devil.