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### **New Markets for Montana Coal?**

In early September Montana Governor Schweitzer joined coal, electric utility, and railroad executives to celebrate the construction of a new 35-mile rail spur that will link the restarted Bull Mountain coal mine south of Roundup, to national coal markets 1,500 to 2,000 miles away to the east. The mine and railroad, after a \$400 million investment, are now ready to begin shipping coal as far east as Pennsylvania in a new form of “carrying coal to New Castle,” shipping coal from eastern Montana right into the heart of Pennsylvania, Ohio, and Appalachian coal country. The capacity of the expanded coal mine could boost Montana coal production by as much as third.

If production proceeds as planned, this represents a dramatic expansion in Montana coal production. Much to the frustration of many folks who have wanted to build economic development in Eastern Montana around mineral development, Montana coal sales have been flat at around 35 million tons per year for almost 30 years, while Wyoming coal sales have increased ten fold. The economic explanations offered for this difference between the two states have focused on both the higher quality of Wyoming coal and on Wyoming’s transportation cost advantage in reaching booming Sunbelt states. Some may interpret the plans to ship large quantities of Montana coal from Roundup to Cleveland as disproving those assumed economic constraints on the market for Montana coal.

This could be very important to a decision the Montana Land Board is scheduled to make soon about leasing the relatively isolated Otter Creek coal tracts in the Tongue

River Valley of Eastern Montana. Much of the debate about that coal development has been over whether that new mine, which also requires that a railroad be built, would primarily cannibalize existing Montana coal markets, displacing existing Montana coal mines and miners. If the market for Montana coal is actually much larger than previously thought, maybe there is room for another very large coal mine in Montana at Otter Creek.

Comparing the Bull Mountain mine to the proposed Otter Creek mine would be a serious mistake. The very real market constraints that will limit the sale of Otter Creek coal have not magically vanished. The Bull Mountain coal mine has had several very important advantages that explain its success thus far, advantages that Otter Creek coal does not have.

First, the Bull Mountain coal is low in sodium. The boilers and pollution control devices associated with electrical generation do not have to be rebuilt in order to use Bull Mountain coal. It can be burned in almost any electric power plant in the nation. That is not true of Otter Creek coal. It can only be used by a limited number of generating facilities specifically designed to burn high sodium coal.

Second, the Bull Mountain coal is significantly higher in energy content, the BTUs per pound. Since that is what electric generators are actually buying, the shipping costs per million BTUs are significantly lower for the Bull Mountain coal compared to Otter Creek coal. That difference by itself allows Bull Mountain coal to be economically hauled 15 to 20 percent further, 200 to 250 miles further, going beyond Detroit to the Cleveland and western Pennsylvania areas.

Third, the financial commitment to expand the Bull Mountain mine and build the rail spur came before the 2008 financial meltdown and recession. This is important. When the \$400 million commitment to Bull Mountain was made, credit for risky ventures was still available. Wall Street's appetite for speculative investments was still high. In addition, the demand for and price of energy, including coal, was high and rising. Now, amidst a serious recession, coal production and prices have fallen and stockpiles of surplus coal are rising as the demand for and price of electricity have plunged.

Fourth, the November 2008 elections changed the expectations about the likelihood of carbon regulation to stabilize our climate. Now most observers are expecting some form of carbon regulation that will make coal a less attractive fuel for electric generation. That is further depressing profit expectations associated with investments in new coal supplies.

Finally, the electric utility that is buying the coal, First Energy in Ohio, is also an investor in the expansion of the Bull Mountain mine. It invested expecting that it had a captive market for its coal and electricity, namely its retail electric customers. The state of Ohio, however, recently demanded that the utility go out for competitive bids for its electricity and bill its customers no more than what other electric generators would charge to provide the same electricity. This will keep First Energy from simply billing its customers for the costs of the Bull Mountain mine and railroad. Their sweetheart deal at the expense of their retail customers that allowed them to finance the mine expansion appears to be unraveling.

Clearly it will be very difficult if not impossible to recreate something like the expansion of the Bull Mountain mine around our state-owned Otter Creek coal tracts.

The economy has changed, coal markets have gotten worse, and the coal quality problems that have limited Montana's access to most major US coal markets continue to limit Otter Creek coal to competing with existing Montana coal mines. As a result there is no mineral bonanza to be found for Montana state government at Otter Creek.