Questions and Answers

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QUESTIONS AND ANSWERS

Following the speakers' presentations, a brief question and answer period was conducted. The most pertinent of those questions, along with the answers offered by the forum participants, are set out below.

Question: The Subcommittee on Coal Mining of the West Virginia Legislature's Joint Committee on Government and Finance recently concluded that the State of West Virginia has neither an overall policy toward the State's coal industry nor a positive program to encourage the industry's health and growth. Should there be an overall policy toward the West Virginia coal industry, and, if so, what facets of the industry should be encompassed by this policy?

Mr. Pearson: We in State government certainly feel that there has been too much splintered activity in the past. For that reason, there are proposals currently before the State Legislature for the creation of a commission of those in government responsible for dealing with our energy, environment, and economy. The whole thrust of these proposals is to provide a coordinated and planned approach to how we deal with our energy resources, economic development, and environmental safeguards. Some specific missions must also be performed, such as the location and quantification of the natural resources and fuel resources that we have available. Certainly we would hope to work to solve some of those technical problems that are peculiar to the kinds of coal we have in West Virginia. We are not going to attempt to carry on a research and development program that will be competitive with every other state, private company, or unit of the federal government, but we will address those problems that are causing us either environmental concerns here or making our coal worth less as a result of its unattractiveness in the market.

Question: The Subcommittee noted that coal producers generally do not favor a State policy toward the coal industry, fearing that such a policy would merely add to coal's cost and, if past State efforts are any indication, be unproductive. Is there any commentary on this?

Mr. Hardesty: I think that it is as clear as can be that unless we

1West Virginia Legislature, Joint Committee on Government and Finance, A Study of the West Virginia Coal Industry and Ways to Help It, Overview at 1 (1974).

2Id.
do develop policy we are going to be sitting here in 1980 dealing with problems of much greater severity. For the last two years, as both State and nation tried to develop policy, more time was spent on the allocation of shortages than was spent in going forward with planning how to develop the energy adequacy this nation will need if it is to continue any economic growth. I cannot see why it is not possible to sit down and say that our goal for the United States by 1980 is going to be an economic growth rate of one percent, or that it is going to be flat, or that it is going to be ten percent, determining the proper goal in terms of what is in the best interests of 210 million Americans. Once we establish where we want to go, we can develop the means of attaining our goals. Unless we are willing to sit down and each give up something, we are not going to attain our goals, and our problems are going to compound with each and every day that goes by.

I have complete sympathy with a regional plan that says let's not have problems in West Virginia twenty years from now when coal resources do not provide the economic base on which the wheels will turn. This is the same type of feeling that the Arabs have today. Any conversation you have with them now indicates that these vast funds that are flowing into their countries are going to be used to develop some sort of industrial or social complex which will survive after the last barrel of oil has come out of the ground. These are things that must be done, plans that must be made, and we are not doing them today.

Question: Considering the great capital requirements of opening a new mine and the inability of some smaller companies to finance those requirements, does the State have a proper role in financing new mine expansion?

Mr. Hardesty: I think whether the State goes into industrial development depends on whether we are going to follow a free enterprise concept or go to nationalization. If we are going to nationalize, then get into the game and get ready with huge amounts of money. If we choose to depend basically on free enterprise, controlled as may be necessary to meet social demands, then I think industry can do it on growth alone. This does not mean, of course, that there are not a number of things that the State can do by way of providing funds, whether it be for environmental purposes, the correction of the ills of the past, or going in and perhaps rendering assistance to some new enterprises that are unable to make it in the free market.
Question: What effects will the trend towards national energy companies have on the West Virginia coal industry?

Mr. Hardesty: This brings up the question which is now before Congress of a federal exploration and development corporation. When the bill that is now pending is finally unmasked, it will be recognized as one of the biggest giveaways ever experienced in this nation for the fewest number of people at the expense of everyone. The concept of the current bill is to develop information about our energy industry and then to provide some guidelines for that industry. I certainly think that both of those goals can be met for considerably less than the one billion dollars now proposed. In my opinion, a proper information bill will get the basic bedrock facts necessary for government, industry, and the public to make sensible decisions in the future. Such a bill would not require any great amount of money. And let's not deceive ourselves—the energy industry is shipping data and statistics into Washington by the trainload. The fact of the matter is that problems have not existed in the years since World War II which required careful attention to those facts as they came in. What we need to do is to collate those facts, make sure they are verified and subject to audit, and assure that they are in a form that all concerned can use as a factual platform on which to base decisions for tomorrow. I do not believe that we need a federal exploration and development corporation to do that.

If you are to determine whether coal, nuclear, oil, or natural gas companies are doing their jobs today, then perhaps there is room for the creation of a government corporation, but it should be done on a little different basis—put it on a basis that makes it competitive. When the government corporation has to bid on off-shore leases, let it pay the same price paid by private industry. When it must raise money, let it pay the same rates borne by private concerns. And when it meets with business reversals, then I want to see how that is explained to the shareholders. After all, there would be 210 million of them—the entire American public. And what if there is an oil spill, how will that be handled? These are some of the reasons that I have no problem putting any government corporation into competition at this time. From my experience of witnessing private enterprise compared with public enterprise, I do not worry about tomorrow for one minute.

Mr. Wimpen: I feel that a federal development and exploration corporation, a form of nationalization, may be a long way down the road. I am very mindful of the time we initiated the uranium
program in this country. We took the opposite view, put the carrot out on the stick and let private industry do the job. We were eminently successful. I do not want to see any radical departure from the free enterprise system that has brought this country to the state of development it has achieved, and I would fight vigorously against trying to develop the nation's petroleum potential in any of the areas with a federal corporation.

I would also like to say a few words about the accessibility of information. At the Bureau of Mines, we have collected statistics on all the mineral industries. There is a tremendous amount of available data, but, unfortunately, there is no commensurate utilization of this data. Because of this, a lot of people develop the idea that no information is available and that an agency should be established to accumulate this data. While the abundant information we have on the coal, oil, and natural gas industries has been sufficient for the purposes for which it was required in the past, we do not have figures on how much oil there is in your local distributor's tanks at any point in time. Perhaps this is the point of the current information moves. While these figures will help in the attempt to allocate a short supply, they will not solve the basic problem. We must realize that we have no shortage of energy resources. The problem is that we have been an abject failure when it comes to properly developing them.

Question: An argument can be made that, as regards the situation in West Virginia, State policy is mandated to an extent because the international interests of many of the energy companies no longer coincide with the interests of West Virginia. Would anyone care to comment on that?

Mr. Hardesty: I must disagree with that statement. If you are going to rely on West Virginia money to develop this State's reserves, you will still be trying to do the job in the year 2050. It is going to take, I think, the expertise, financial resources, and technology from without the perimeters of West Virginia. We can no longer consider ourselves as living in an isolated nation or region. Energy in all of its forms is really a world commodity. We are going to be affected by what goes on in Japan and Europe and by what goes on in the Middle East. This will be true until such time as we can build up total self-sufficiency in energy in this country.

Now, I think if you go back and look at the larger companies that have participated in West Virginia, their degree of development has exceeded the degree of development that other compa-
nies have had in this area. I think this will be the trend in the future. The basic question for this area is going to be need, economics and the ability of industry to work within an environmental framework that is carefully planned for the future.

Question: What is the investment picture right now, let's say, from the standpoint of Continental Oil, which has investment in both high and low-sulfur West Virginia coal and in Western coal?

Mr. Hardesty: If you are just a coal company, and you approach tomorrow with the experience we have had at Continental, you do so rather gingerly. We have always broken down our earnings by profit centers, as we call them. In Consolidation Coal, the country's second largest in terms of tonnage and first in terms of revenue, we lost twelve million dollars in 1973. We, perhaps, have been more unfortunate than others in that we have not experienced the tremendous price increases about which so much is heard today. Perhaps this is because we have not written the right kinds of contracts that escalated properly. In any event, our price increases have been moderate because not all costs have passed through to market, and as productivity went down, so did profit margins. This is a correctable situation that is going to turn itself around. If you consider the price of a barrel of oil today at eight dollars and put that price in terms of coal, coal should be selling for thirty-five dollars a ton on any equivalent basis. However, it is going to take a long time before we reach that level. Investments have been made by large fuel consumers based on certain cost levels for energy, so there is certainly going to be some give and take until we do reach that level. In any event, we are going to to sell coal wherever (1) we can mine it within the framework of restraints and regulations, whether the mining is surface or underground; and (2) there is a market which permits us to take a ton of coal to market and at least recapture capital within a reasonable period of time at something above a break even or loss basis. This will bring forth the investment capital that is necessary.

West Virginia's problems, in my opinion, do not turn upon the need to attract money to develop the reserve. They turn upon the problem of marketability—where West Virginia coal can be sold. We must be able to market this coal over a long term so that we can enter into a contract requiring us to invest forty million dollars to extract two million tons a year—a contract that does not say that as soon as a little more oil comes out of the ground in the Middle East, the contract is cut off and we are left with a white elephant. It is within such a framework that environmental, espe-
cially sulfur, considerations come into play.

If sulfur restrictions are not eased, we will open up a reserve out in the West to meet the demand, assuming we can get a sufficient price.

So you have economic problems—I think they are soluble. In this day of energy need and comparative fuel costs, I think coal can go to the market and demand the price that is needed. You also have the environmental question. Certainly, in the minds of men, these questions can be resolved. We also have some pretty basic labor problems. It is very difficult in 1974, as we are going into contract negotiations and bargaining, to make accurate estimates of what production costs are going to be. Absenteeism has been high but is coming down some. Wildcat strikes, after a horrible year last year, are decreasing. Still, times are difficult when a company has averaged seventeen tons per man-day and is now off to eleven. I do not think many people understand what this means. It means that of the forty million dollars put into a two million ton per year mine, you are realizing a return of only forty percent. It means that capital costs are way up and that the chances of ever coming out ahead are way down. These are intangibles that we must solve somehow so that we can go forward.

Question: With present environmental standards, one gets the impression that West Virginia coal is not very marketable and that the investment picture in West Virginia coal is, therefore, not very bright. Is this a correct statement?

Mr. Hardesty: I think that as of today, that is a fair statement. As I have indicated, I believe that the environmental problems are soluble. Let me say one other thing. There is a belief almost everywhere that we can take low-sulfur coal from southern West Virginia and put it under a boiler somewhere. There are some basic chemical problems associated with the organic makeup of low-volatile metallurgical coal that make such coal unsuitable for steam generation. This is not to say that it could not be done, but this coal is not high in BTU content and it has some fluidity characteristics which would require redesign of all our current boilers. In addition, the basic steel production of the United States is tied to the availability of high-quality metallurgical coal. Thus, we are dealing with a very precious resource in that respect. There is a third reason that metallurgical coal from southern West Virginia is not used in the utility market and that is the cost factor. The fact is that the cost of a ton of metallurgical coal is about twice that of a ton of conventional steam generation coal. You are talking
about mining a coal that is not basically adaptable at a cost which is now ranging over twenty dollars per ton. That is much, much higher than the normal utility coals. While I think there is a very strong future in the metallurgical market for the lower sulfur coals from southern West Virginia, I also think there is an equally strong future for all the coals in this area that may be between 1.5 and three percent sulfur if we can resolve the environmental problems which currently inhibit that coal's development.

MR. PEARSON: If you look at the prices that are now being paid for West Virginia metallurgical coal, you will find that it is selling for twenty-three to thirty-five dollars a ton. Some of this coal also has a very low sulfur content, but in the long run we cannot afford to burn that kind of coal under a boiler any more than we can afford to use natural gas for steam generation. We have got to face some decisions, and there is just no question that the secondary air standards do cause a great abundance of problems, especially for northern West Virginia coal. We have got to speed up development of ways to get sulfur to an acceptable level and, in the meantime, we are probably going to have to be burning dirtier coal than we would like in the Eastern power plants. Our Atlantic States are going to have to eat a little sulfur for a few years—I just do not see any way around that for the short term. I want to reiterate that, in my opinion, some of the health and safety problems that we have to solve with respect to the use of other energy sources, particularly nuclear energy, are as substantial as the sulfur and reclamation problems that we face with respect to the utilization of coal. This is not a prediction of world doom when we attempt to convert to nuclear power. I would just like to put the problems that we have in perspective and prevent any uncalled for optimism among those who see ready solutions for those problems.

*Question:* If we accept the proposition that the world's resources are finite and depleting day by day, and if we also accept the proposition that growth is a desirable thing, how long is this nation to continue its growth by using the quantity of the world's energy resources that it is now using while the rest of the world sits back and watches?

DR. MIERNYK: Well, I hope we can continue to obtain the needed resources until we get the job done of better educating the American public in the one thing we have all agreed upon here today—conservation. Along with conservation goes the fact that there are limits to growth. I do believe there has been a shift in emphasis. At the beginning of the Eisenhower era, a book was
written called *Goals for America*, and it was nothing but growth, growth, growth. About ten years later, another study was done on national goals. This time it was called *Quantity and Quality*.

The real point is that the world is becoming more interdependent every day, and we cannot go on indefinitely believing that we can have one third of the world’s daily energy consumption for less than five percent of the world’s population. That does not mean that we are going to give up what we have and ship it to Brazil. If we look at the world’s resources and the world’s people, we can readily see that any equalization would simply be an equalization of poverty. I do not see any sudden or dramatic changes in our lifestyle or in the lifestyle of other developed countries, but I do see a real need for a belief that our energy resources are limited and a recognition that we have to use them wisely, not only with a view to what will happen to other parts of the world, but with a view to what is going to happen to future generations.

*Question: Considering the labor problem in the coal mining business for just a minute, are any of the demands of labor unreasonable, and how do those demands have a detrimental effect on mine productivity?*

*M. Hardesty:* I have no knowledge of any demands on the part of labor relating to safety that are unreasonable. However, I do not think the interests of labor and management are running down the same road, and, if they are not, they need to be brought together. I doubt labor feels management is committed to safety as it should be, and I think we must convince them that we are committed by our actions. Also, I doubt that labor appreciates the fact that many of the things that happen today come about by virtue of attitude. What I am asking for is not specifics of negotiations but a new approach to tomorrow as far as the coal industry is concerned. Safety must be number one in this new approach, and I think there has to be a motivating commitment both on management and union levels that this is the number one future target. Our experience has shown that more than 400,000 man hours were committed to training in 1973 at Consol. That is probably insufficient, but it is a step in the right direction.

What must be understood is that a whole different relationship has developed in the history of the coal industry. In the time of John L. Lewis and a strong United Mine Workers Union, a contract was very difficult to bargain. Once it was bargained, however, whatever its terms, it was honored by both the employer and the union laborer. Because of industry-wide bargaining, the center
of all authority shifted to the headquarters of the United Mine Workers in Washington. Both management and union representatives looked to Washington for the resolution of their problems. This led to a separation between employer and employee, which resulted in the decay of what would be a normal, healthy employer-employee relationship. I hope this trend turns around in the future. I would be the last one to say that the United Mine Workers today is in any way heading in the wrong direction, but we are living in a new world and relationships between employer and employee must change and improve if coal is to attain a higher role in the energy picture than it has in the past.