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## Uncertain Future

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**Regulations almost assured, but what form will they take, what effects will they have?**

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West Virginia's history as a state is linked directly to coal.

It's why many of our ancestors settled here. It's why some of our communities were established. It's what keeps some of us employed now either in businesses that support coal or even some organizations that advocate against it.

For generations, coal has been the fuel that not only powered our homes but also powered the state's economy.

Now, a new focus on coal's link to global warming is raising questions about what the future of coal will be and, simultaneously, what the future of the state will be. Trying to answer those questions is comparable to getting investment advice from a Magic 8 Ball. Everything depends on how things shake out.

Some see the anticipated regulations as an optimistic step that will benefit West Virginia. To some people, carbon regulations may be the only way to get Wall Street and companies to invest in more efficient power plants, such as integrated gasification combined cycle (IGCC) plants. They said regulations also are the only way to really see whether coal liquefaction and gasification are realistic endeavors. They believe regulations will help West Virginia and the nation embrace a more diverse energy sources.

In short, they say, "Bring it on."

"I think that when you look at technology that new plants should be implementing, it is pretty clear that IGCCs are more attractive if we get more stringent air quality regulations of any kind," said Stratford Douglas, an economist at West Virginia University. "And over the next 25 years, coal is going to be in competition with natural gas for the electric market share, and it seems to me that if we pretend that we're not going to get regulation, if we build plants that are only viable under loose air regulations, that the coal's going to lose out in the long run."

But others see the change as a lot scarier.

In recent years, the state's budget has been wrapped in the warm blanket of a surging energy market. The state has enjoyed higher than expected severance tax revenues, higher than expected personal income growth and a boom in employment. And carbon regulations may just be the stiff wind of reality that blows the warm blanket away.

"The state has enjoyed about three or four consecutive years of economic growth, and the coal industry has a lot to do with that," said Mark Muchow, deputy secretary for the state Department of Revenue, adding later, "Because West Virginia is a high carbon output state, the impact would be greater here than in other places."

### How Hard of an Impact?

Cal Kent, vice president for Marshall University's Center for Business and Economic Research, said the impact depends entirely on how carbon emissions are regulated. If Congress demands that power plants immediately begin using the best available technology to make electricity, many coal-fired plants could shut down, he said.

A carbon tax also may be detrimental to the state's economy because it might increase coal and power prices. Regular West Virginians wouldn't feel that price increase as much as residents in other states because state regulations control electric prices customers pay. But higher coal prices would make the energy source less attractive, which may result in an economic downturn.

Kent said the best option is a cap-and-trade system because it relies on the market controlling emissions. But there is also a big question mark with that system, he said.

"It depends on how high the cap is set and if West Virginia can get credit for the natural sequestration we have through our forests," he said. "If we don't get credit for our sequestration and our status as a carbon sink, it may be as onerous as the others."

Kent said any of those options may have an impact on the state's economy. But he said he doesn't see it as disastrous.

"Is it the nail in the coffin for coal? No. But it will have an impact," he said.

George Hammond, an economist at West Virginia University, said he hopes any regulations are phased in over time to give the state a chance to adjust. But he said the writing is on the wall, and both the state and its residents need to focus on becoming diversified.

"Now's the time for West Virginians to focus on increasing their educational attainment, their skill levels, and the state has begun to make some headway in terms of improving the business climate," he said. "We need to continue along those lines."

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This may be the chance, Kent said, for the state to vigorously pursue developing energy from alternative sources. Last year, the Center for Business and Economic Research conducted a study for the West Virginia Development Office looking at the state's innovative energy opportunities. What the study found is that West Virginia has a wealth of renewable resources and alternative energies that could be used. And nearly all of them -- from harnessing wind power to finding new uses for waste coal, chicken litter and landfill gas -- are largely untapped.

"We could be the wind center of the world because of all of our ridges," he said. "We have tremendous hydro potential. ... There are all sorts of ways West Virginia can be the energy capital. But we're not doing it."

Kent said many other states compile energy profiles and portfolios that help show all of the options and resources the state has. And many of those portfolios also stipulate what percentage of energy comes from renewable sources, Kent said.

That is not something that has happened yet in West Virginia. Instead it's something the state's Public Energy Authority hopes to do soon.

"Plus we have that odd law that takes nuclear power off the table," Kent said. "With our abundant water resources, West Virginia may be a good state to locate nuclear power. South Carolina is pushing to become the nuclear power capital in the U.S. North Carolina is too.

"There are a lot of things we can do besides say coal is our only hope," he continued. "It's not our only hope."

But to do that, Kent and others say lawmakers and the Public Service Commission need to change some things. For starters, Kent said the state needs legislation requiring the state to create that portfolio.

In addition, he said, the state needs net metering, a process that encourages people to generate some of their own electricity through alternative sources. If they need additional energy, they can buy it off the grid from the electric company. But if they have a surplus of electricity, the customers can send it out onto the grid and get a credit on their next electric bill.

Net metering has been adopted in numerous states. It is being discussed in West Virginia right now.

PSC spokeswoman Sarah Robertson said the state agency began investigating net metering following the passage of President Bush's 2005 Energy Policy Act. While PSC commissioners have not yet adopted a net metering standard, it now is in the rule-making process. In addition, the PSC is asking all electric utility companies to file tariffs outlining how much they would charge customers to do net metering. Those tariffs must be filed by March 1.

Vivian Stockman, community outreach coordinator for the Ohio Valley Environmental Coalition, said net metering could make all the difference in encouraging people to consider alternative power.

"With net metering, you are your own little power plant," she said. "A lot of states have it, and it helps you recoup your costs."

#### The Budget Adjustments

But how will the state recoup its costs if the coal market takes a tumble?

Muchow doesn't have any specific projections on how regulations might impact the state financially, but he said when considering the hundreds of millions of dollars the industry pays in severance taxes, business taxes and property taxes, the effects could be huge.

He said carbon regulations could cause coal to become a less attractive source of fuel. Supply will go up and prices, like demand, will tumble. Coal currently sells for about \$50 per ton. If that price drops down to \$45 per ton, the impact on the state's budget will be a hard hit to the gut, he said.

"That 10 percent movement, if you're looking at severance tax collection from the coal industry in the \$300 million neighborhood, that's \$30 million in severance taxes that go by the wayside," he said. "So it has -- just like the rising prices had -- a major impact on the collections. About three or four years ago, we were collecting close to \$180 million in severance taxes for general revenue; last year it was \$315 million, so it was a major increase and it was, for the most part, price-driven increases. And what goes up can come down."

But the impact wouldn't be felt just by the coal industry, its workers or the businesses that burn coal to make electricity. It would be felt by every resident and business in the form of higher heating and electric bills. And those higher bills may hit the manufacturing sector the hardest, he said.

"We have aluminum manufacturers in the state that use a significant amount of electric power," Muchow said. "As price increases, the chance of these high-end users of electric power and energy surviving in the manufacturing world declines. So we may ultimately see a reduction in manufacturing over and above what we've currently seen."

#### Other Challenges to Coal

But the biggest challenge to the future of coal may not come from Congress. Instead, it may come from other states.

A recent forecast from the federal Energy Information Administration predicts a decline in coal production from the Appalachian region. The reasons for that decline are numerous, but one of the biggest may be more competition from other coal states.

For years, coal companies and coal customers bought Appalachian coal, especially from southern West Virginia, because the product has less sulfur in it, which means it burns cleaner. But the lower sulfur coal is more difficult to extract and is more expensive. Now with more and more power plants installing scrubbing equipment to remove sulfur dioxide after the coal is burned, the quality of the coal matters a little less.

Price matters more.

As a result, mining operations in the state are shifting from a southern emphasis to more northern. Operations in Monongalia and Marion counties and other places are picking up because long-wall mining techniques can be used there, allowing for more efficient removal of coal. Plus, the seams are bigger there.

That's not the only shift, though. Muchow said he anticipates more mining operations shifting to Illinois, Ohio, western Kentucky and elsewhere.

"If the sulfur is removed, there is no need to rely on the low-sulfur type coals as much as in the past," he said.

Bill Raney, president of the West Virginia Coal Association, said the shift already is obvious to anyone who is watching the coal industry. He said a lot of the companies that have mining operations in West Virginia also own reserves in other states. He said some of those companies are putting a lot of investment dollars in those other states instead of here.

"Today, we've got a number of West Virginia companies that have a big presence out there (in Illinois) because Illinois is excited to have the coal industry coming back," Raney said. "And that coal is a higher sulfur coal, which fell out of favor in the 1970s and '80s, but now with scrubbing technology that's on all of the utility plants. That higher sulfur coal can be burned and still comply

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with the Clean Air Act."

While West Virginia mines currently produce between 145 million tons and 150 million tons a year, Raney said it will be a challenge to maintain that level.

"It will be more difficult to sustain (production) as we go forward, but we have to because our people depend on it, state government depends on it. We've got a lot of people that, well, in the 26 counties where we produce coal, they depend on that industry operating every day," Raney said.

Kent said he doesn't think coal mining will disappear or even drop dramatically. The nation needs coal, he said. It needs every watt of power coal helps to produce. And that need is not going to decline. In fact, he said it's going to do just the opposite.

"We'll need every plant out there," he said.

Most people aren't willing to give up their computers for a manual typewriters and an abacus. We're not willing to give up our stove and microwave oven to cook on a wood fire. Most of us can't handle sitting in a room with the TV off.

What the state needs to do, Kent said, is find the middle ground and deal with the carbon quandary, which will affect the state's energy supply and its economy.

"It's not particularly helpful for the debate to be just between the extreme environmentalists and the staunch advocates of coal," he said. "There is a middle ground in this. There has been stuff that has been done in other states, and it hasn't ruined their economy. So let's look at other places and get on with it rather than carry on the it's-all-coal or it's-no-coal debate."

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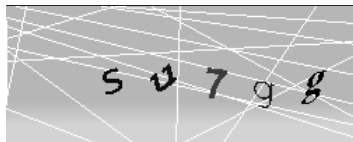
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