Appalachian coal mining faces grim future

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Cheaper competition from west coast and natural gas, federal regulations will only exacerbate the situation in a region that is hemorrhaging jobs and money.

(Photo: SETH PERLMAN AP)

LOUISVILLE, Ky. (AP) — Hard times are expected to continue in the Appalachian region that was once the heart of the nation's coal production, according to a new report.

Coal business in the mountains of eastern Kentucky and southern West Virginia is facing declining reserves, higher production costs and competition from other coal basins and natural gas.

The region is home to a long-simmering battle between the industry and environmentalists over a mining practice known as mountaintop removal. Government agencies including the Environmental Protection Agency under the Obama administration have taken aim at the mining method, which uses blasting and heavy machinery to scrape away layers of rock and earth, drastically altering the landscape.

The report from Morgantown, W.Va.-based Downstream Strategies said government data shows that production in Central Appalachia is projected to fall from 185 million tons in 2011 to 128 million tons by 2020, a 31 percent drop. Along with eastern Kentucky and southern West Virginia, the region also includes lower producing mines in Tennessee and Virginia.

The consulting group sounded alarms about the decline in a report a few years ago. The document released Tuesday titled "The Continuing Decline in Demand for Central Appalachian Coal: Market and Regulatory Influences," said the region's production is being squeezed by economics, government regulations and even its own geology.

"Since we released our 2010 report, the decline of the region's coal industry has been publicly acknowledged by both industry leaders and state policymakers," said Evan Hansen, president of environmental consulting group.

The region reached a production peak of 294 million tons in 1990 and 291 million tons in 1997.

But much of the region's easy-to-reach coal seams have been mined out, meaning it takes more workers to keep production levels up, translating to higher labor costs, the report said. And electric utilities, traditionally the region's best customers, are retiring coal-fired plants or upgrading plants to burn cheaper natural gas, a trend the report says will continue into the future.

Competition from high-producing western mines that can mine coal at a cheaper price is also putting economic pressure on Central Appalachia — which has long been associated with coal mining dating back to the early 20th Century, when entire towns sprung up around busy underground mines. The region remained the dominant source of coal in the U.S. until it was overtaken by western states, namely Wyoming, in the 1990s.

Last year, according to the U.S. Energy Information Administration, two massive surface mines in Wyoming accounted for 20 percent of the nation's coal output. By comparison, all the mines in Central Appalachia produced just 17 percent of U.S. coal in 2011.

The report also mentions tougher federal regulations being enforced by the Obama Administration, which coal supporters and some elected officials in the region cite as a key reason for slowed production.

Mines in the mountainous areas of Central Appalachia have undergone a level of scrutiny that coal operations in other areas haven't been subjected to, said Bill Bissett, president of the Kentucky Coal Association, an advocacy group.

"This action, along with other regulatory effects from the federal government, have created an unfair atmosphere in eastern Kentucky's coal production," Bissett said.

The federal government's halting of about 40 mining permits in eastern Kentucky has led to the loss of about 3,600 jobs in the mines and in businesses that benefit from the region's mining, Bissett said.

"We do recognize eastern Kentucky is facing significant hardships right now in coal production, but much like that market has decreased so quickly, there are analysts telling us it could uptick almost equally as quickly," he said.

Coal companies that operate mines in the region have echoed the report's concerns about the region to their investors.

Alpha Natural Resources of Bristol, Va., which operates 89 mines in Central Appalachia, said in its 2012 annual report that it expects production in those operations to decline by 10 percent by 2017.

St. Louis-based Arch Coal attributed slumping production in the region to cheaper natural gas, "depletion of economically attractive reserves, permitting issues, and increasing costs of production," according to its annual report.

The Tennessee Valley Authority is offering retirement incentives to power plant workers in an effort to cut some 2,400 jobs as part of a plan to idle 18 of its oldest coal-fired power plants.