

Montana Energy Forum – TD Draft Remarks

Good morning. It is truly an honor to participate in this forum with so many distinguished colleagues. On behalf of Westmoreland Coal Company I want to thank Governor Sweitzer for bringing this group together to discuss such an important issue as energy. As we have seen in recent months the weakness of our nation's energy infrastructure has been exposed. Montana's enormous energy potential can play a key role in strengthening that infrastructure. In fact one could say that Montana not only has a role to play but a duty to develop these resources. This duty also extends to our Native American brothers who are owners of vast energy reserves.

With such broad representation from the industry present, I expect some of you may not be familiar with Westmoreland and in particular, our long history in Montana.

Westmoreland Coal Company is publicly traded on the American Stock Exchange and we have the honor of being the oldest independent coal company in the nation. In fact, just last year we celebrated our 150th year in business. In its early years, Westmoreland was primarily an eastern underground coal mining company. Interestingly the coal we mined in those early years was used for gasification in New York, Philadelphia, and Boston for street lighting.

During our more recent history, in the 1980's, we expanded our business to include power plant development and operation, and in the early 1990s shifted our coal operations away from eastern mining to exclusively western surface mining operations. Today **(slide 2)** Westmoreland is among the top ten coal producers in the U.S. **(slide 3)** Along with our five mines operating in three states, and we have retained interests in three of the eight power plants that we have developed. Two of the retained power projects, located in North Carolina, are fueled by coal.

(slide 4) Westmoreland's Montana operations include the Rosebud Mine, located near Colstrip, Montana which supplies coal to the Colstrip Generating Station as well as power plants in Minnesota, **(slide 5)** the Savage Mine, near Sidney, Montana which

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supplies coal to the Lewis & Clark Station and the Sidney Sugars plant, (**slide 6**) and of course, the Absaloka Mine, near Hardin, Montana which provides coal to power plants in Minnesota. In addition, we are excited about our Absaloka Mine supplying the new Hardin Generating Plant which should begin operations later this year.

At Westmoreland, we emphasize responsible mining and environmental stewardship. I am happy to report that our Rosebud Mine was recently presented a National Award for Excellence in Surface Mining Reclamation from the Office of Surface Mining and Enforcement of the U.S. Department of the Interior. (**slide 7**) The Rosebud Mine was recognized for its innovative engineering design for final pit reclamation. The design preserved and blended natural topographic features that include several steep slopes, sandstone cliffs, and rock outcrops. It also resulted in saving more than 5,000 ponderosa pine trees.

We also strive to maintain a safe work place for our employees. We insist upon safe work practices. Our safety record this year is the best ever for our five mines. We have had no lost-time accidents, and our performance in this area is led by the Savage Mine which has worked 1366 days to date without an accident resulting in lost time.

Westmoreland is certainly not a new face to Montana's energy community. As far back as the 1960's, our former Chairman, Pemberton Hutchinson, embraced a vision that included expansion of mining operations into the west, and over 30 years ago, Westmoreland along with its partners developed the Absaloka Mine and began mining reserves owned by the Crow Tribe of Indians. Today Westmoreland is the largest coal mining company in Montana, producing nearly 20 million tons in 2004 and employing close to 500 people. Approximately 80% of the employees at the Absaloka mine are members of the Crow Tribe. In fact, through royalties, production taxes, and wages, the Absaloka Mine is the biggest private sector contributor to the Crow Tribe's annual budget [economy - instead of annual budget?]. [Confirm OK with Chairman Venne] We have for 30 years and continue to appreciate our relationship with the Crow Tribe.

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(**slide 8**) Westmoreland produces about half of the state's total coal, which means that along with the other major producers, the Decker Mine and the Spring Creek Mine, the total production in the state is about 40 million tons per year. At that level, Montana produces less than 4% of the total U.S. coal output, even though Montana has the largest coal reserves of any state in the nation, with an estimated 119.3 billion tons (Source: US EIA). (**slide 9**) Montana's primary competition, Wyoming, has more than doubled its output in the past fifteen years, while Montana has remained static. Governor Sweitzer has been recently discussing alternative ways to develop Montana's vast energy resources - Like coal liquefaction. This development could allow the state to take advantage of producing value added products without building major intrusive transportation infrastructure that would actually weaken Montana's transportation advantage and strengthen Montana's competitor's.

This untapped resource can be a major player in the future economy and energy supply of Montana and the nation as well. But much of the timing and eventual outcome will be dependent on the actions taken by the State. Looking to the east and south, neighboring states are leading in this regard and much can be learned from them. North Dakota and Wyoming have recognized the economic development options they have and energy is an attractive option. Westmoreland has participated first hand with the North Dakota energy industry, and local and state political leaders and we have seen how the state can actively promote the development of coal for the benefit of the state and its citizens. Montana is certainly positioned to be a leader in this important area as well.

I believe that we can grow production, markets, and jobs (and revenues for the state) from Montana coal. (**slide 10**) But to do so, we will have to protect our transportation advantages to our core markets – Minnesota, Michigan, and, of course, Montana. These three states account for almost 80% of Montana sales, largely because Montana coal mines sit 150 to 300 miles closer to these markets than do our Wyoming competitors (**slide 11**). As you can see with current rail infrastructure Montana coal enjoys an advantage to these core states over competing coals.

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Siting of state-of-the-art minemouth plants in Montana is another excellent avenue for preserving our transportation advantage. This will also address the fact that so much of our coal in Montana is either just above “compliance” sulfur levels, and thus disadvantaged under new environmental regulations – especially relative to the ultra-low sulfur suppliers in Wyoming -- or else high in sodium content, which restricts the number of existing plants that can operationally use the Montana coal. The Colstrip Power Plant is an excellent example of this value added model where the product is electricity and the high paying jobs that create that product are kept here in Montana.

We do see over the next several years a growing demand for literally thousands of megawatts of new baseload capacity in the core Montana market states. Today’s high energy prices certainly help Montana coal because coal plants are again looking like the most attractive option for new electric generation, rather than natural gas. And with transportation costs and difficulties, mine-mouth base load coal plants in particular are looking good.

For the past 10-15 years, all anyone wanted to build were gas plants, because the capital requirement was lower, the environmental issues were easier to address, and gas was cheap and plentiful. Where prices were at, say, \$3/mmBtu five years ago, they are in the teens today. So the convergence of a baseload demand crunch and the unavailability of low priced gas should lead to more coal plants and greater demand for Montana coal.

With a commitment to environmental responsibility, we must not lose sight of renewables such as wind. Montana has significant wind resources that can be bundled with base load coal for economic development. [Wind like thermal generation requires transmission. The economy of scale of base load coal generation will facilitate the development of wind generation.]

So, how can we best extract the value of this potential market? Tackling the challenges and roadblocks that slow progress must become a priority at all levels of government and within the private sector.

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I offer several thoughts for your consideration:

- First, a word of thanks to our Montana congressional delegation and in particular Senator Baucus for your [his] recent help with our Crow coal issue in Washington. Your [Senator Baucus's] efforts in standing up for the rights of the Crow Tribe were meaningful and we greatly appreciate it.

- **(slide 12)** Second, it is our challenge to ensure that, when new plants get built, they use the most advanced state-of-the-art commercially proven emission control technologies and are otherwise designed specifically for Montana coal. We must also be flexible to allow for innovation while using proven technology.

- Third, strategic investments in transmission infrastructure should be made by government and the private sector [as partners]. The neighboring states of North Dakota and Wyoming have taken dramatic steps in this regard.

- Fourth, transmission infrastructure must be developed, and transmission routes optimized with surrounding states. Coal will be a major component of this country's energy mix for many years, but it should be used in ways different from in the past and should be transported differently. Power plants, which may be built in lesser populated areas must be able to move power to the market. New transmission technologies may come into play here but the need for transmission capacity is now. It will take state leadership particularly in the areas of routing and financing to bring new transmission capacity on line, not only to serve new coal-fired generation but also to deliver wind and other renewable energy to the market.

- Fifth, state-owned reserves must be strategically developed to optimize the benefits to the state. The current tension between energy supply and demand

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is encouraging for all forms of energy development. Certainly, the Otter Creek tracts look much more interesting today than they did three years ago or even last year. A challenge for the State will be to develop these reserves in a way that does not upset the advantages that Montana enjoys at existing operations. This challenge can be met by developing new reserves for alternative uses such as coal liquefaction. Production of these value added products create more high paying jobs in addition to mining jobs while at the same time this production does not displace existing employment with new mines that compete for the same market. We applaud Governor Sweitzer for his leadership in this area.

- Sixth, responsible new development can be attracted through a pro-business climate. Proven clean coal technologies and partnerships with renewable technologies such as wind are two of the best ways to assure coal's position in the energy mix. "Low-cost power and a clean environment" is Westmoreland Coal Company's mission and we believe it is a mission that serves the State of Montana as well, but in order to achieve this, it is necessary to have a pro-business climate which strives for:
 - o an acceptable competitive tax structure
 - o a skilled workforce
 - o reasonable permitting timeframes, and
 - o reasonable environmental regulations and fair regulatory processes.

Today's energy needs suggest a bright future for coal and the Montana economy. But, the state of Montana must nurture and invest in its current coal business and be entrepreneurial in how it works with the private sector to develop the vast resources in the State. Westmoreland is already heavily invested in Montana and we continue to believe in the potential for growth here. We are prepared to develop new resources, and are committed to protect the environment and we are prepared to partner with the State and people of Montana to create a solid economic future for all.

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Once again I thank Governor Sweitzer for organizing this symposium and allowing Westmoreland Coal Company to participate in this most critical discussion.

Thank You.