

(BN) Cline Talking Clean as Coal Mines Supply Most Energy Since 1970

-----+

Cline Talking Clean as Coal Mines Supply Most Energy Since 1970
2010-10-12 04:01:00.6 GMT

By John Lippert and Mario Parker

Oct. 12 (Bloomberg) -- With maps of 675 square miles of his Illinois mines before him, Chris Cline recalls the moment he knew the coal in those mines would be worth billions of dollars.

It was 2002, and he and a competitor were on the phone lamenting how hard it was to find big deposits in central Appalachia, the stretch of rolling hills that extends from West Virginia to eastern Tennessee.

Cline, a miner's grandson, knew where to look instead, Bloomberg Markets magazine reports in its November issue. The next day, he decided to spend \$300 million for mining rights, land and equipment in Illinois, betting on coal his rivals were abandoning. Cheap, plentiful and energy-rich, Illinois coal had a major drawback: It contained too much acid-rain-producing sulfur to be burned in most power plants.

Cline foresaw that the dwindling Appalachian supply, coupled with what he expected would be rules to force all power plants to add scrubbers to remove pollutants, would make Illinois coal attractive. If plants had to clean the coal anyway, Cline reasoned, why not use inexpensive Illinois stock?

He was right. Three years later, the U.S. Environmental Protection Agency required power plants to add scrubbers to cut emissions, reviving the stagnant market for high-sulfur coal.

The value of Illinois deposits quintupled during the next five years, helping Cline raise \$1.2 billion to build the mines that he's now parlaying into a fortune.

'Going All In'

"I never had a problem going 'all in' in a card game," says Cline, 52, who is tieless in a blue shirt and chinos as he recalls his gamble on this June morning at his Pond Creek mine outside Marion, Illinois, 320 miles (515 kilometers) southwest of Chicago.

If you've never heard of Cline, it may be because he's making his fortune far from Wall Street on the Illinois prairies -- by digging up a rock humans have used for fuel since the Bronze Age.

Cline doesn't hang out in Hollywood or Silicon Valley or hobnob with fellow billionaires. He's the principal owner of a private company, Foresight Energy LLC, and until now has never spoken to the media. Cline maintains his roots in West Virginia.

He spends two months a year off the beaten track in Beckley, a town of 16,832 near where his grandfather mined coal with a pickax a century ago.

Chances are good that if you live in the eastern third of the U.S. -- or even in parts of Europe -- your home is lit by electricity from his coal. Cline ships 11 million tons a year and may reach 80 million tons by 2018, giving him 7 percent of projected U.S. output.

'Good Lives'

Cline says he abandoned his policy of avoiding reporters -- and his long-held belief that there's no such thing as good publicity in the coal business -- because he wants to improve coal's public image on all fronts.

"We in the industry probably do the worst job in the world getting out the story of the good lives we're helping people live," Cline says. "Changing that is certainly a big interest of mine."

At Pond Creek, Cline, who is 6 feet (1.83 meters) tall and has the rugged looks of actor Harrison Ford, turns effusive as he dons blue coveralls and a white hard hat. He ushers his visitors into a pickup that heads down a paved slope toward the coal.

This is ideal territory for longwall mining, so called because it uses a machine with a 5.5-foot shearer to cut slices 3.5 feet thick from a coal seam that's 1,400 feet wide -- a long wall of coal. Each day, Cline's longwall machine extracts 35,000 tons, enough to power 2,800 U.S. homes for a year.

Coins Jingling

It's dangerous work that can rile up landowners when it causes property on the surface to drop by 6 feet. But compared with Appalachia, with its 4-foot-thick coal seams and mines filled with water and mud, it's more like coal farming, Cline says.

Five hundred feet underground, the pickup emerges into a labyrinth of corridors alongside a conveyor that hauls coal to the surface. Cline beams as fist-sized chunks rattle past.

"I like that," he says. "It's like the sound of coins when they're jingling."

In an age obsessed with global warming and green energy, coal -- a combustible rock that has generated heat for humanity for 5,000 years and still conjures up images of black lung disease and the sooty England of novelist Charles Dickens -- is staging a defiant comeback.

Climate Change

Condemned by environmentalists who say that digging it mars the land and that cleaning it is impossible, and blasted by the World Health Organization for contributing to premature deaths, coal supplied 29.4 percent of the planet's manmade energy last year -- the highest level since 1970.

Coal is responsible for a third of U.S. emissions of carbon dioxide, the main greenhouse gas producing climate change, the Government Accountability Office found in June.

CO₂ in the atmosphere rose in July from a year earlier to 390.09 parts per million from 387.84. The International Energy Agency, which advises 28 governments including the U.S., advocates a limit of 450 parts per million to avoid social disruption.

"Coal is one of the most damaging materials in the environment, but it's not going away," says John Thompson, an analyst at Boston-based Clean Air Task Force. "By 2015, China will have three times more coal-fired plants than the U.S.

They'll produce CO₂ that will stay in the atmosphere thousands of years."

Growth Industry

China opens a coal-fired plant each week; last year, seven workers died every day on average in Chinese mines trying to supply those plants, according to the nation's environmental ministry.

Global coal consumption may soar 58 percent from 2010 through 2035, the U.S. Energy Department says, making it a growth industry for the 21st century. Eighty-five percent of the increase will come in China and India, the DOE says.

Cline says he has read everything he can find on global warming and describes it as a real but exaggerated threat. He says he supports technologies that make the burning of coal cleaner and is doing his part by supplying coal to an American Electric Power Co. power plant in New Haven, West Virginia. New Haven is the world's first coal-fired plant to both capture carbon and then bury it thousands of feet deep in a process called sequestration.

Cline says he's trying to make mining itself safer by using fewer workers and giving them incentives to be productive.

'Inconvenient Truth'

Politicians who want to penalize coal have their priorities wrong, Cline says. He says humankind will benefit more from cheap and abundant energy than from overreacting to what he calls minimal increases so far in atmospheric CO₂ and the level of the world's oceans.

Cline says he was so annoyed when his children's teachers in Palm Beach, Florida, aired Al Gore's film "An Inconvenient Truth" that he asked them to distribute literature that showed that climate change may be caused by clusters of sunspots or the Earth wobbling on its axis, not just carbon. When they refused, he complained to school fundraisers.

"As far as the social acceptability of coal, I like to think I'm part of supplying the cheapest energy in America," he says.

Buffett's Coal Bet

Investors are applauding coal's comeback. After tumbling 84 percent in five months from June to November 2008 as the financial crisis gutted growth, the Stowe Global Coal Index rebounded. The index rose 295 percent from its low on Nov. 20, 2008, through Oct. 11 of this year -- more than five times the rise of the Standard & Poor's 500 Index in that period.

Shares of Peabody Energy Corp., the largest U.S. coal producer, climbed 217 percent to \$51.53. Brisbane, Australia-based Macarthur Coal Ltd., the biggest producer of coal used in steelmaking, quadrupled to A\$12.90. Joy Global Inc., which makes mining equipment in Milwaukee, rose 381 percent to \$73.12.

Even Warren Buffett's \$27 billion purchase of the Burlington Northern Santa Fe LLC railroad in February was partly a bet on coal. Buffett, chief executive officer of Berkshire Hathaway Inc., uses his company's newly acquired railroad to ship coal from Wyoming to dozens of U.S. states.

Cline is buying locomotives, building a port on the Ohio River and designing his own oceangoing ships to serve his coal empire. He already exports 40 percent of his haul, mainly to Europe. As China and India gobble up half of world production, he's in talks to ship to them, too.

Mine Games

Cline says mining rights to his 4 billion tons of Illinois coal are worth at least \$3 billion. Dennis Kostic, president of Weir International Inc., a Downers Grove, Illinois-based consulting firm, puts the value at \$4 billion -- a level of affluence Cline's grandfather couldn't have imagined.

Raised in a West Virginia hamlet with 200 residents, Cline today owns a 164-foot yacht called Mine Games that features five staterooms and a two-person submarine. He docks it in Palm Beach, 9 miles from his 34,400-square-foot (3,200-square-meter) oceanfront mansion in a neighborhood he shares with golfer Jack Nicklaus. He commutes to his mines in a Gulfstream G550 jet and cruises Illinois in an Italian-made AgustaWestland helicopter with his Australian shepherd, Niki.

In Beckley, his 150-acre (60-hectare) estate has a lake, a go-kart track and pastures filled with horses, goats and llamas. Cline, a divorced father of four who says he dates occasionally, calls it a playground for his two sons and two daughters.

"I just haven't had time to look for a wife," he says.

Getting Richer

Cline could become even richer if Foresight goes public. He says an initial public offering would be worth \$3 billion if it occurs next year, as it may. The value would rise to twice that by 2013, he says. He declines to specify his stake, saying only that he's the majority owner of the Palm Beach Gardens, Florida-based company.

"Chris knows how to mine coal," says Nick Carter, president of Natural Resource Partners LP, a Houston-based owner of coal reserves, who has provided Cline with \$315 million in financing since 2005 and has promised \$205 million more. "I want him gambling with my money."

Cline says he aspires to run the safest, most efficient and most environmentally friendly U.S. coal company. If he achieves those goals, he says, profits will follow.

At Pond Creek, with its conveyor brimming with coal, Cline says he's making an operating profit of \$28 per ton this year. Peabody averages \$5.99 per ton, says Seth Schwartz, president of Arlington, Virginia-based consulting firm Energy Ventures Analysis Inc.

Backbone of Power

Cline is exploiting coal's big advantage: It's a bargain compared with most forms of green energy.

"Coal is the backbone of reliable, low-cost power," says Bartow Jones, managing director of Riverstone Holdings LLC, a New York-based Carlyle Group affiliate that invested \$600 million in Cline's operations in 2007.

Power-plant coal such as Cline's sold for \$47.25 a ton on Oct. 11, about two-thirds cheaper than wind power and three-quarters the cost of solar, according to Bloomberg New Energy Finance. In the second quarter, the cost of electricity per megawatt hour from coal was \$59.51, including capital and operating expenses, compared with power from offshore wind at \$176.37 and electricity from thin-film photovoltaic cells at \$240.55.

At a cost of \$19 a ton to mine coal last year at Pond Creek, Cline spends even less than competitors. Coal from central Appalachia averages \$57 a ton to mine, Schwartz says.

'That Bothers Me'

Because coal is an inexpensive engine to fuel the world's development, Cline says, regulators must be careful not to cripple growth.

The U.N. Intergovernmental Panel on Climate Change won a Nobel Peace Prize along with Gore in 2007 for a plan to limit fossil fuels through higher taxes, among other things. Cline says such measures are misguided.

"If we're going to put a tax on carbon, with the money going to the thousands of people dying every day from not having clean water, or from malaria, then anybody who refused that would be immoral," Cline says. "But to do it because somebody wants a windmill turning instead of fossil fuels, with the money going to a non-useful entity, that bothers me."

World governments provide subsidies for fossil fuels worth \$557 billion a year, including \$40 billion for coal, the IEA says. This compares with \$46 billion for renewables and biofuels.

Cline says he doesn't get subsidies and would like to see them end. He cites Christopher Monckton, who served as a policy adviser to former U.K. Prime Minister Margaret Thatcher, as the most knowledgeable expert he has found on global warming.

'Moral Imperative'

Monckton says inexpensive electricity is the best tool for reducing birth rates, since people have fewer children when incomes rise and education improves.

"There is a moral imperative to burn as much coal as necessary to lift the world's poor out of poverty," says Monckton, now joint deputy leader of the U.K. Independence Party, which wants the U.K. to leave the European Union. "If you don't, the population is going to explode."

James Hansen, director of the Goddard Institute for Space Studies in New York, says Monckton's argument is fallacious because coal boosts death rates, too. "This is the stupidest statement I have ever seen," Hansen says.

Coal and wood burning contribute to 656,000 premature deaths a year in China, the World Health Organization says.

"Scrubbing sulfur from power-plant emissions just means pollution is deposited in landfills," says Joe Lovett, founder of the Appalachian Center for the Economy and the Environment in Lewisburg, West Virginia.

'Bull in China Shop'

Miners still bear coal's most immediate and deadly risks. Methane and coal dust may have sparked the blast that killed 29 workers at Massey Energy Co.'s Upper Big Branch mine in Montcoal, West Virginia, on April 5 -- the worst U.S. mining accident in 40 years. Massey CEO Don Blankenship, who unlike Cline has had no qualms about grabbing the spotlight, said in July that excessive regulations can imperil miners.

Cline describes Blankenship as one of the coal industry's most talented leaders.

"Don thinks his convictions are morally correct and follows them," Cline says. "In some ways, people should admire it. They should also think, 'Maybe there's a way to not be a bull in a china shop.'"

On a July day, while flying in his helicopter, Cline points to West Virginia mountaintops that Arch Coal Inc., Massey and others have

sliced off to remove coal. He says he's amazed that gutting mountains can be profitable.

"We have less environmental impact," he says of his underground Illinois mines.

Ghostly World

At Pond Creek, Cline's first Illinois mine, work started with an opening called the slope that's 25 feet wide, 10 feet tall and burrows diagonally 3,300 feet to the coal. Cline opened miles of underground roads, placing steel girders every 4 feet and cable mesh overhead. He coated the walls with pulverized limestone to suppress dust, producing a ghostly world of silent, white passageways.

Every few feet, a rope dangles to guide miners in case of an accident. Oxygen kits and emergency bunkers are available every few hundred yards.

Five hundred feet below ground, Cline's longwall machine comes whirring into view, with its spike-studded shearer spinning like a giant's delicatessen meat slicer. As the machine advances, 10-foot-tall roof supports jog forward on hydraulic lifts. Three workers in T-shirts and coveralls wear earplugs and shout over the noise.

'Mention Jobs'

None has a respirator; they rely instead on monitors that read dust and methane levels. They'll slice forward 900 feet this day and will need another 25 years to exhaust this one mine.

A longwall operation can leave its mark on the farmland above. As the roof supports move forward, earth behind them collapses. This can cause land overhead to drop 6 feet, leaving cornfields and backyards like sunken bathtubs.

Larry Schraut says such subsidence will damage corn he's been farming near a proposed longwall mine for 40 years. He's challenging Cline's permits but isn't optimistic.

"All you have to do is mention jobs," Schraut, 63, says.
"You don't have to say anything else."

So far, Cline is keeping neighbors happy by meeting with them and offering compensation, Marion Mayor Robert Butler says.

"I have not heard a peep in terms of subsidence," he says. Cline says if there's a house or farm nearby affected by his mining, he's required by law to buy or fix it.

'Don't Go Underground'

Cline says his mines are safer than those of rivals because he uses fewer people. Cline's workers, who don't belong to a union, can make \$80,000 a year by meeting safety and output targets.

Pond Creek's underground workers delivered 17.3 tons per man-hour last year, five times more than the 3.41 tons for Murray Energy Corp.'s New Era mine 17 miles away, according to the Mine Safety and Health Administration. Pond Creek lost 1.8 days to nonfatal injuries per million tons in the first half of 2010 compared with 49 nationally, according to MSHA data.

"The best way to be safe is, don't go underground," Cline says.
Cline has been working on better ways to mine coal most of his life.

Working With Dad

When he was 6, his father, Paul, paid him a penny for each paper bag he filled with dirt from under the porch of their single-story, white frame house in Isaban, West Virginia. Paul and a few dozen employees dug reserves too small for such companies as Peabody to bother with and used the bags of dirt to secure explosives for blasting. In two years, Chris had removed so much dirt that the porch collapsed.

"He told me I needed to support the roof better," he says now.

Chris learned by accompanying his father into the mines on weekends and holidays while his mother, Lassie, kept the books. In 1980, Paul signed a \$50,000 note to buy out his partner. He gave the partner's share to 21-year-old Chris, who stopped short of graduating from the psychology program at Marshall University in Huntington, West Virginia, to accept.

Cline never hid his ambition.

"He was always in my office, asking, 'Is there another reserve I can get into?'" says Kostic, who then ran contract mining for Eastern Associated Coal LLC. "He was interested in expanding, in not being static."

Cline handed silver dollars to workers who met safety targets, says Lew Savisky, another Eastern Associated worker.

"It's an incentive that doesn't cost an arm and a leg," he says. "I guarantee it helped him not have accidents."

Tragedy Strikes

Tragedy struck two of the people closest to Cline. His first wife, Sabrina, the mother of now 28-year-old Candice, died of breast cancer in 1987. He remarried in 1993 and then divorced his second wife, Kelly, 10 years ago.

His best friend, Sidney Green, died in 2002 when the roof collapsed in Cline's mine near Wharton, West Virginia. Green, 52, ran a machine that moved through the mine and extended hydraulic lifts to support the roof. Federal investigators fined Cline \$45,500 after concluding that he had allowed these machines to move simultaneously, not one at a time.

"Provisions of the approved roof control plan were not being followed," the MSHA said in 2003.

Three years later, Green's widow, Lorraine, settled a lawsuit in which she claimed Cline's foreman had been working instead of supervising and had ignored a miner's warning about cracks in the roof. Terms weren't disclosed.

'Human Aspect'

Cline says inspectors who are focused on legal technicalities can always find violations. He says he still ponders that day's mysteries, such as why Green was walking in that part of the mine. Cline says he now spends \$28 per square foot on roof support, four times more than competitors do. Even though he has had no fatalities since Green's death, his heart races when the phone rings at night.

"There is more of a human aspect to us than just sending a guy underground and not caring," he says of mining deaths.

"Zero is certainly our goal," he says.

Geology contributes to safety in Illinois. In West Virginia, where Cline recently shut a mine, coal is 4 feet thick and can be interspersed with sandstone. Miners lean forward in rail cars to avoid hitting their heads and often work in water and mud.

In Illinois, coal seams are flat and 7 feet thick. Workers can stand up and move around better. Illinois deposits are less prone to cave-ins and less likely to contain water or methane, Cline says.

'Take More Risk'

Illinois was still a big bet when Cline went "all in" in 2002. An EPA crackdown to limit acid rain, starting with the Clean Air Act of 1990, had cut the state's coal output to its lowest level since the Great Depression. Exxon Mobil Corp., which mined coal in addition to drilling oil, was closing mines from West Virginia to the Rocky Mountains and joining Chevron Corp. and others in abandoning Illinois.

"Chris was willing to take more risk than we were," says Robb Turner, co-founder of Boston hedge fund ArcLight Capital Partners LLC. Turner purchased West Virginia mines from Cline but declined to invest in Illinois because he expected meager profits.

Carter, president of Natural Resource Partners, was willing to fund Cline. Carter's investment makes NRP a proxy for investing in Illinois coal, says David Khani, an FBR Capital Markets analyst in Arlington. Even as coal booms, some investors are worrying that the amount of cash Cline needs to build mines -- mixed with an economic slowdown -- could jeopardize dividends for NRP's limited partners, Khani says.

Investor Backing

Investor John Musgrave, an analyst at Swank Energy Income Advisors LP in Dallas, doesn't have such doubts. He expects NRP to maintain its 7.99 percent tax-deferred dividend because Cline and other general partners have postponed taking the income they're entitled to. He says NRP's dividend, quadruple the S&P 500 average, compensates investors who are waiting for Cline to grow. Swank owned 1.1 million NRP shares in June. They rose 9.6 percent in six months to \$27.30 on Oct. 11.

Foresight's newest mines are taking shape in Illinois. On a June day, Cline parks his pickup at the bottom of the slope for his Sugar Camp mine, 12 miles northeast of Pond Creek. He points upward in a room as big as a cathedral. He describes how workers suspended 19-ton rollers for the coal conveyor from the ceiling and lowered them into place.

More Mines

Sugar Camp may have four longwall machines mining 30 million tons annually. The first one will arrive in the fourth quarter of next year. Cline's Hillsboro mine, 100 miles northwest, may deliver 25 tons per man-hour when finished in 2011, says Dwayne Francisco, the operation's president.

Even with his yacht, plane and Palm Beach mansion, Cline remains a miner at heart. He goes underground to inspect his operations twice a month. While flying over his Macoupin County, Illinois, site in June, he told Foresight CEO Michael Beyer to remove trash and to ship off a pile of coal that was hot enough to release steam in the bright sunshine.

Cline says he may reach top speed in eight years, when his sons Christopher, now 16, and Alex, now 15, will be old enough to join the firm. He says he has no plans to sell, especially if Foresight becomes a public company that trains his boys.

"There's a good possibility they'll be the fourth generation," Cline says. "I'm hoping they will."

The Next Generation

Before his sons take over, Cline says they'll need college educations to understand the global economics and politics of an industry whose surge has confounded critics. They'll need to be toughened up for life underground. Safety laws, unlike those during his early years, prevent him from taking the boys into a mine.

To help them appreciate their privileged lives, Cline sometimes makes his children fly commercial aircraft instead of the G550. He introduces them to miners, and he shows them videos of when he started out; he says he hopes the films instill a sense of what it took to rise from life in a West Virginia backwater and become a billionaire.

He also wants them to learn what it may take in the future to overcome forces aligned against a black rock that -- despite outrage over its environmental, health and safety history -- has proved its staying power as the world struggles to go green.

For Related News and Information:

Coal mining: TNI COAL MNG <GO>

Coal and the environment: NSE CLIMATE COAL <GO> Top energy news: ETOP <GO> Top power news: PTOP <GO> Top climate news: TOP ENV <GO> Coal markets: COAL <GO> U.S. heat rates: EIAH <GO> Power Generation by source: EIAG <go> Regional fuel costs: EIAF <GO>

--With assistance from William Mellor in Sydney and Chris Stratton in Stollings, West Virginia. Editors: Gail Roche, Jonathan Neumann

To contact the reporter on this story:

John Lippert at +1-312-443-5930 or jlippert@bloomberg.net Mario Parker at +1-312-443-5927 or mparker22@bloomberg.net

To contact the editor responsible for this story:

Michael Serrill at +1-212-617-6767 or mserrill@bloomberg.net.

To write a letter to the editor, send an e-mail to bloombergmag@bloomberg.net or type MAG <GO>