

High Country News

FOR PEOPLE WHO CARE ABOUT THE WEST

How Utah coal interests helped push a secret plan to export coal from California

Companies and investors are trying to survive a collapsing U.S. coal market.

Sarah Tory | July 21, 2016 | Web Exclusive



Anti-coal protesters react to pro-coal speaker Ronald Mohammad during an Oakland City Council meeting on June 27, 2016.

Scott Strazzante / San Francisco Chronicle / Polaris

On June 27, hundreds of people packed the Oakland City Council meeting where a proposal to ban the transport of coal through the California city was up for a vote. Speakers on both sides of the issue delivered passionate arguments, pitting the promise of good jobs in a depressed area against concern about environmental impacts. The meeting quickly became rowdy. “There was a lot of tension,” says Rev. Ken Chambers, pastor of West Side Missionary Baptist Church in West Oakland, who spoke in support of the ban. Pro-coal supporters stationed in the audience heckled him throughout his address, and at times, Lynette Gibson McElhaney, the council president, struggled to maintain order.

“Officers,” she requested, “please escort those persons who continue to have disrespectful outbursts outside of the chamber.”

The vote came after more than a year of heated debate over plans to build a marine terminal, from which coal mined in Utah could be shipped to Asia. The proposed terminal was part of a larger redevelopment project slated for the old Oakland Army Base, located in West Oakland, a predominantly black neighborhood that's among the region's poorest and most polluted.

One by one, the seven council members present voted to uphold the ban on transporting coal (<http://www.latimes.com/local/lanow/la-me-ln-oakland-coal-20160627-snap-story.html>). The decision was finalized by a second vote on July 19, leaving the proposed \$250 million project in limbo. Without coal as one of the terminal's possible bulk commodities, proponents warned, it would be at risk of losing critical funding — depriving an economically struggling neighborhood of job opportunities. Critics of the plan, however, worried that transporting millions of tons of coal by rail — even in covered cars — through West Oakland poses a public health and safety risk to local residents, who already experience high levels of air pollution.

The decision — and the wider controversy around it — places Oakland at the center of a growing battle over coal exports on the West Coast. From British Columbia all the way to California, plans for new export terminals are faltering, thanks to opposition from local communities concerned about climate change and the environmental impacts of fossil fuel development.

Working against that movement, however, is a network of powerful financial interests that have invested heavily in coal and are now desperate to find a way to recoup their investments and somehow still profit. The Oakland terminal was an important part of a larger plan to sell landlocked Utah coal overseas. And it was hatched in a web of money and politics that entangled struggling communities in two vastly different regions: West Oakland and rural Utah.



The Intermountain Power Project, a giant power plant in Delta, Utah, which supplies much of Southern California with electricity.

Doc Searls/CC Flickr

Carbon County, Utah, got its name from the vast amounts of coal found in the rugged country southeast of Salt Lake City. Coal mining took off in the late 1880s, bringing jobs along with the occasional violent upheaval. In 1897, legendary bank robber Butch Cassidy and his partner, William Ellsworth “Elzy” Lay, stole the \$8,000 payroll of the Pleasant Valley Coal Company, which operated mines in the county. And later, two mine explosions, one in 1900 and the other in 1924, killed nearly 400 people.

Despite the early tumult, Carbon County grew to depend on coal economically. For most of the last century, it looked like a good bet, with coal supplying the vast majority of Utah’s energy needs. Other states wanted Utah’s coal as well. In the early 1980s, an electrical utility cooperative in Southern California helped persuade the state to build a massive power plant, the Intermountain Power Project (IPP), in Delta, Utah, promising to buy its coal-generated electricity.

But Carbon County’s fortune changed as utilities increasingly moved to replace coal with cheaper natural gas and renewables like solar and wind energy. In 2013, the city of Los Angeles, which had a contract with IPP, voted to end its reliance on coal-fired electricity by 2025 (<http://www.argusmedia.com/pages/NewsBody.aspx?id=839596&menu=yes>), in favor of natural gas. The decision hit Carbon County hard, says County Commissioner Jae Potter. Between 75 and 80 percent of the county’s jobs rely on coal mining and power generation. Over the last several years, hundreds of locals have lost their jobs as coal-fired power plants have closed and mines have shuttered.

“It put us into a tailspin,” says Potter. “What do you do?”

But the collapsing coal market still looked profitable to one private equity firm – Galena Private Equity Resources, registered in the Cayman Islands. (Private equity firms buy up troubled or undervalued businesses and other assets, then re-structure and sell them.)

In 2013, Galena invested over \$104 million in Bowie Resources, a Kentucky-based coal firm, acquiring a significant minority stake in a new joint venture company called Bowie Resource Partners. Backed by money from Galena’s private investors, Bowie began buying the assets of other coal companies on the verge of bankruptcy. In Utah, Bowie bought three mines from Arch Coal, which filed for bankruptcy (<https://www.hcn.org/articles/huge-us-coal-company-declares-bankruptcy>) in January.

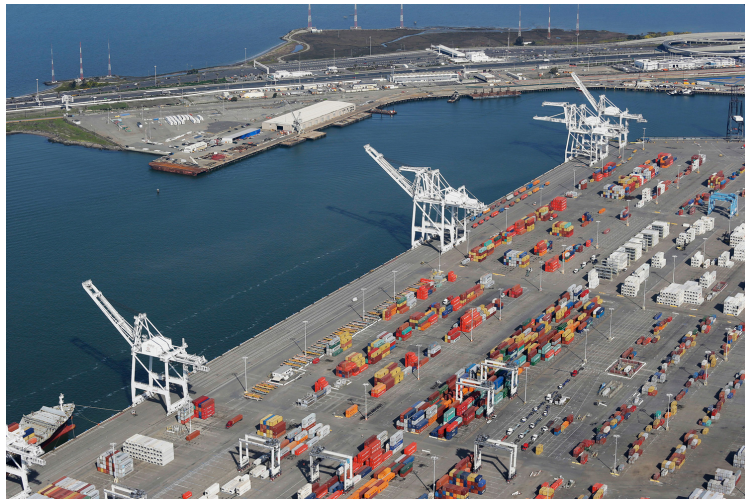
“Galena has built an impressive record of prudently selecting high performing investments,” said (<http://bowieresources.com/wp-content/uploads/2013/11/Bowie-Resources-and-Galena-Private-Equity-Resource-Fund-Press-Release-June-2013-FINAL-ITERATION.pdf>) Jeremy Weir, CEO of Galena Asset Management, in a press release. “We believe that Bowie Resource Partners has a unique opportunity to reshape the Western US coal paradigm.”

But for the investment to pay off, Bowie needed to get that coal out of Utah and overseas to Asia, where, in contrast to the U.S. market, demand still seemed insatiable. To do that, however, it needed access to West Coast ports.

Galena was not the only private equity firm to bet on coal. Lighthouse Resources, a Salt Lake City-based firm, owns two mines — one in Montana and the other in Wyoming — and is the main driver behind the proposed Millennium Bulk Terminal in Washington and the Morrow Pacific coal export project in Oregon.

“For Galena, the hope was that they would help transform Bowie into a thriving export-oriented coal business so they could then sell their stake to another private equity fund or run it as a public company on the stock market,” says Clark Williams-Derry, the director of energy finance at the Sightline Institute, a Seattle-based environmental think tank.

In its financial documents, Bowie outlined its plans to export through West Coast ports. But it glossed over a major problem: Few of the existing marine terminals in California and other West Coast states are capable of exporting the millions of tons of coal that Bowie’s Utah mines could produce. A new terminal project in West Oakland, however, one equipped to handle coal, could provide the opportunity Bowie needed.



The proposed coal export terminal that was banned in an Oakland City Council meeting would have been built at old Army Base pier in Oakland, upper left.

Eric Risberg/AP Photo

West Oakland, where the terminal would be located, hugs the eastern side of San Francisco Bay. Once, it relied on the 7,000 blue-collar jobs supported by the Oakland Army Base. But the base closed in 1999, and ever since, the neighborhood has struggled.

In an effort to rebuild the neighborhood's economy, the city of Oakland contracted with a private company, California Capital & Investment Group, to redevelop the old base. The Oakland Global Trade and Logistics Center would include a rail terminal, truck parking, warehouse space, a recycling center, and a bulk marine terminal. When the project was announced in 2013, the developer promised (https://cdn.theatlantic.com/assets/media/files/att_3_-_december_2013_oakland_global_newsletter.pdf) that coal was not part of the plan. Instead, the terminal would ship bulk goods like iron ore, corn, wind turbines and auto parts.

But last April, a small Utah paper broke a story (http://www.richfieldreaper.com/news/local/article_e13121f0-dd67-11e4-b956-3ff480cc1929.html) that the developer had tried to keep under wraps (https://d3n8a8pro7vhmx.cloudfront.net/350bayarea/pages/2409/attachments/original/1443487780/Exh_A-Utah_public_records--secret_coal_plans.pdf?1443487780): Four counties in Utah, where Bowie's coal mines were located, intended to invest in the proposed Oakland terminal, with the intent of shipping their coal out of it.

Opposition from environmental groups and West Oakland residents quickly mounted. In 2014, the nearby Port of Oakland had rejected a separate proposal from Bowie to build and operate a coal export terminal. This new proposal was equally unpopular. Surrounded by three major highways, an active railroad, and the fifth-busiest port in the U.S., West Oakland already suffers disproportionately from air pollution. According to the latest statistics, local asthma rates are 2.5 to 3 times higher than those of other Oakland neighborhoods, and many residents worried that coal dust could escape from the coal trains and make the problem worse.

Still, not everyone was opposed. Last December, Rev. Chambers attended a meeting (<http://www.eastbayexpress.com/oakland/coal-money-divides-oaklands-churches/Content?oid=4673334>) at another church on Oakland's East Side, where a representative from the terminal developer promised that bringing coal through the area would create jobs without bringing new health and safety problems. Some people in the audience perked up.

Unemployment is high here, and thanks to Silicon Valley's booming tech industry, the neighborhood is undergoing a housing crisis. Rental prices in San Francisco have risen so much so that people are now snapping up property in West Oakland, driving up rents for the mostly poor working-class families who live there. To many of those gathered at the meeting in the church, the coal export facility sounded good, recalls Chambers, "a way to contradict all the hardships."

Kevin Barnes, one of the other pastors at the meeting, said the facility offered hope to unemployed people. "I'm not an environmentalist," he later said (<https://oaklandnorth.net/2015/09/22/hundreds-pack-public-hearing-on-coal-exports-in-oakland/>). "But I support this project because I believe some jobs can come in

— all they're asking for is a chance.”



Coal miners in Carbon County, Utah in the 1880s. The county's economic viability has depended on coal since the 1880s.

Western History & Genealogy Department/Denver Public Library

It wasn't the first time Utah counties had tried to fund transport for their land-locked coal; as early as 2001, several counties sought to build a 43-mile railroad connecting a coal transfer terminal near Salina, Utah, with the Union Pacific Railroad south of Nephi, Utah. The purpose of the line, known as the Central Utah Rail Project, was “to provide rail access to local industries, primarily the Southern Utah Fuel Company (SUFCO) coal mine owned by Bowie Resources,” in order to move bulk cargo to other parts of the country. But the railroad plan would only work if it included a port from which to export the coal. By late 2014, the counties' efforts — backed by Bowie (<http://www.eastbayexpress.com/oakland/banking-on-coal-in-oakland/Content?oid=4463888>)— were focused on securing access to the proposed Oakland bulk terminal, enabling them to ship goods such as salt, grain and hay — and especially coal — to overseas markets.

Soon after, Jeffrey Holt, an advisor to the counties who served simultaneously as chairman of the Utah Transportation Commission and as an investment banker with BMO Capital, organized visits to the proposed Oakland terminal site for Sevier and Carbon County officials.

For both Bowie and Holt, there were huge financial incentives: The terminal offered a way to sell millions of tons of Utah coal abroad and could earn millions of dollars for Holt's investment firm, BMO Capital. (The terms of the loan include a \$3 million “strategic advisory” fee.) At a meeting in early April 2015, four of the counties involved in the rail line proposal — Carbon, Sevier, Emery and Sanpete — asked Utah's Community Impact Board for a \$53 million loan in federal Mineral Leasing Act (MLA) payments to help finance the terminal, with the remaining \$200 million to be raised by private investors. The loan money would come from Utah's MLA proceeds, which, under federal law, are intended to fund public works projects in communities impacted by mining.

The loan was approved, but at least one Community Impact Board member, Uintah County Commissioner Mike McKee, expressed concern about the legality of funding a private out-of-state development with MLA money. “The mineral lease law itself says the priority of funding is for infrastructure, planning and community services, with priority of those funds going back to the area of impact,” he told (http://www.moabtimes.com/view/full_story/26863431/article-Questions-raised-about-CIB-funding-of-major-infrastructure-projects) the *Moab Times-Independent*. “One of the concerns that I had is I don’t think that Oakland, California, is really returning (funding) to the area of impact.”

As criticism mounted over the loan, county officials urged the Utah Legislature to enact a new funding scheme designed to evade the MLA’s funding limitations. The result was Senate Bill 246 (<http://le.utah.gov/~2016/bills/static/SB0246.html>), which swapped \$53 million in federal MLA funds with \$53 million in state transportation funds to provide money to finance the export terminal.

Many of the bill’s supporters, including Utah Gov. Gary Herbert, who signed it, had received campaign contributions from Bowie (<https://disclosures.utah.gov/Search/PublicSearch/FolderDetails/1412984>). The company declined to comment on its involvement in the Oakland terminal for this article.

In a letter (http://earthjustice.org/sites/default/files/files/FINAL%20letter%20to%20investigate%20CIB%20loan_0.pdf) to U.S. Attorney General Loretta Lynch, environmental and government watchdog groups raised doubts about the exchange’s legality and the potential ethical violations involved in the campaign contributions, calling for a formal investigation.

Potter, however, believes the legal and ethical concerns are unfounded; he focuses instead on how the ability to sell Utah’s coal overseas would help revitalize Carbon County’s economy. The return on investment, he estimates, could bring in millions per year for the four counties, boosting local budgets.

Given the coal industry’s precipitous decline (<https://www.hcn.org/articles/western-coal-miner-layoffs>), however, that optimism can appear tenuous. Nationwide, coal consumption has declined by nearly a third since its peak in 2007, when it was the dominant source of U.S. power. Over the past five years, the international benchmark prices for coal have fallen by more than 50 percent. Meanwhile, the prospect of booming markets abroad has begun to fade. China has started burning less coal, and imports have shrunk accordingly. Other Asian countries, especially India, have developed new coal supplies, driving prices down even further. Many of the private equity firms that invested on the promise of overseas markets have had trouble finding new investors and buyers for their coal assets.

Even Bob Murray, the CEO of coal giant Murray Energy, who has filed more than a dozen lawsuits over federal climate change policies, admitted that politicians should stop setting unrealistic expectations for coal’s big comeback. “I don’t think it will be a thriving industry ever again,” Murray said

(<https://www.snl.com/InteractiveX/Article.aspx?cdid=A-36599665-10278>). “We’ll hold our own. It will be an extremely competitive industry and it will be half-size. ... The coal mines cannot come back to where they were or anywhere near it.”

It’s still unclear what Oakland’s decision to ban coal exports will mean for the terminal — whether the developer will raise enough money to build it for other products or decide to challenge the city’s decision in court, like the proponents of the proposed Morrow Pacific terminal did in Oregon after state regulators denied (<http://http://www.opb.org/news/article/coal-export-backers-appeal-oregon-permit-denial/>) the project a key permit.

“It’s very hard to actually kill a project until proponents give up,” says Williams-Derry. And the coal market is likely to continue to fluctuate, even as its future dims. Small rebounds like one this May, where China’s coal imports increased slightly for the first time in 22 months, may be enough “to keep proponents’ dreams alive until something bigger changes,” he says.

For Oakland, though, last month’s vote to ban coal exports signaled a new approach. Air-quality conditions in the polluted port neighborhood have improved, thanks to new laws regulating emissions. During the Paris climate negotiations last year, Oakland was recognized for its efforts at reducing greenhouse gases and black carbon emissions from trucks diesel ships. After struggling so long to improve his community’s air, Rev. Chambers, like many of his neighbors, feels allowing coal exports would be a step back.

Still, he feels badly for places like Carbon County that have hitched themselves to a single commodity. “They’re struggling, too,” he says, and West Oakland can empathize.

Like Carbon County, Chambers’ community needs jobs, but not, he believes, at the expense of human health. All four of Chambers’ children developed asthma, and the family spent a lot of time when they were growing up at the hospital.

Keeping coal out of Oakland is about more than protecting his neighborhood. For Chambers, this is why the fight matters: the stuff we put in the air isn’t just local, it’s global. “When we keep it [coal] in the ground, it helps people in Utah, and it helps people in China, too.”

Sarah Tory is a correspondent for HCN. Follow @tory_sarah (https://twitter.com/tory_sarah).