Energy Insider by William Engdahl

Small coal-producer program fiasco

Will the new administration do anything to get this cost-effective guarantee moving out of the quicksand?

A delegation of coal-state congressmen recently met with the new energy secretary, Dr. Jim Edwards, to discuss complaints over the failure of the previous administration to implement a program called the Coal Loan Guarantee Program. The delegation, headed by West Virginia Democrat Rep. Nick Rahall, pointed out that since passage of that program, an amendment to the Power Plant and Industrial Fuel Use Act of 1978, the program has failed to issue a final loan guarantee to one single small coal mine.

The issue is important. Independent coal operators produced almost 50 percent of our nation's coal last year. Representative Nick Rahall and other coal-state congressmen successfully gained passage of an amendment to the 1975 Energy Production and Conservation Act (ECPA). That amendment was designed to stem the alarming rate of shutdowns of hundreds of smaller independent coal-mining operations in areas of West Virginia, Tennessee, Ohio, and elsewhere. The federal government, through creation of an administering office in the Department of Energy, would encourage mining operations of a small independent scale (less than 1 million tons per year).

The loan guarantee program was intended as just that: the government guarantees a loan between a private bank and a coal miner, in which the bank and the operator agree on the lending terms.

According to a spokesman for Congressman Rahall, who is the leader for the legislative "coal caucus," a series of absurdly restrictive floor amendments was added to the original act by Arkansas anti-energy liberal Sen. Dale Bumpers. These low-sulphur restrictions narrowed the potential coal seams down to less than 5 percent of Eastern coal by one estimate, 90 percent of which coal is currently under lease to major producers.

Despite these odds, some have persisted. As of now, only one potential operator, a Tennessee coal-mining company with leases on 22,000 acres of coal property north of Chattanooga, has even gotten as far as a written conditional commitment for such a loan guarantee.

In June 1979, more than 19 months ago, Milton J. Bernos, Jr., president of Eastern Minerals Corporation, applied for financing under the program to back up a bank loan of $7.1 million to open an underground mine to produce 400,000 tons per year of low-sulfur compliance coal. At full size, it will produce an estimated 800,000 tons of washed coal per year, and an estimated 200 new jobs for area miners now on welfare subsistence.

Based on verbal assurances from various DOE officials during this 19-month period, Bernos personally invested more than $1.94 million to acquire and prepare the site. The DOE has allowed $1.35 million of this as equity.

I spoke with the officials at DOE in charge of the program, who agreed that the DOE had issued a letter of conditional commitment to Eastern Minerals. After reading that document, dated Dec. 11, 1980, I can see why no loans have been guaranteed in almost four years of this program.

In addition to a loan repayment schedule between Eastern Minerals and the bank, the DOE insists *it* have final say in issuing shares of stock. In addition, the company must maintain project management "in a manner satisfactory to DOE," and pay wages "in an amount determined by DOE to be satisfactory." Further, EMC will not purchase or distribute stock "without DOE's written approval."

Bernos, a man with years of experience in oil and gas as an independent, entered the coal arena because it was the one area of energy production that seemed to have White House backing in the previous administration. He has approached the new President, Energy Secretary Edwards, and the relevant congressmen, to overcome what I call "substitutionism" where the DOE would ensure failure by injecting itself into every phase of a project which even they admitted in no way risks taxpayer dollars.

Because the program was not drafted by the Carter energy planners but by coal-state congressmen eager to reopen mining, this worthy and no-cost program has gotten lowest priority.

Contrast the speed with which Sawhill's DOE planners doled out hundreds of millions of actual tax dollars since passage of the synthetic fuels program last year, to corporations which in some cases did not even have a listed phone.