

Newsmaker Interview

Coal Is Not Going Away, Crutchfield

Coal News: *Alpha Natural Resources is the fourth largest coal company in the nation in 2013 producing 85.8 million tons or 8.7% of America's coal. Kevin Crutchfield, we very much appreciate you talking to readers of Coal News as we celebrate our 10th Anniversary. Our readers would be very interested in your background and how you came to be Chairman and CEO of Alpha Natural Resources.*

Kevin Crutchfield: I got into the coal business after finishing mining engineering school at Virginia Tech; that was some time ago of course. I actually participated in the cooperative education program at Virginia Tech where I would work one quarter and go to school one quarter over my junior and senior years. This gave me invaluable experience upon graduation and allowed me to kind of hit the ground running.

Over the ensuing years I was blessed with a range of interesting and varied executive roles with several companies—AMVEST, AEI Resources, Caterpillar, Pittston Coal and Cyprus Amax. At Cyprus Amax, a global mining company, I had the opportunity to serve as an expat in Sydney, Australia as the chairman and president of their Australian subsidiary, Cyprus Australia Coal Company, which was a great experience for me and my family. Also, while at Cyprus Amax, I was exposed to their other resource sectors—copper, gold, molybdenum and lithium, in addition to all aspects of their coal business which, at the time, was about an 80 million ton business in eight states here in the U.S.

Some time later, in 2001, I was recruited to El Paso Energy, a large natural gas producer and pipeline company based in Houston, who had recently acquired Coastal Corporation, to head up Coastal's coal subsidiary. The energy industry was in another rough patch at the time and we decided spinning off the coal company was the right move, so my job transformed from building a coal company into shopping the coal assets to the buyer universe.

I knew Mike Quillen very well from our time together at Paramount and Pittston and we connected when he was with AMCI and trying to make something happen with Pittston's coal assets, which belonged to The Brink's Co. As I mentioned earlier, the coal industry was in a rough patch back then, but it turned out to be serendipitous timing for creating a new company. We formed Alpha in the winter of 2002-2003 by bringing together the Pittston properties, Coastal Coal, and AMCI with the help of First Reserve, a private equity firm.

Alpha grew over the ensuing years with the biggest transaction coming in 2009 when Alpha merged with Foundation

Coal. That was Alpha's 10th M&A deal in 7 years, and I became CEO when the merger was completed. No sooner had we integrated Foundation into Alpha

of the key players in the consolidation that's taken place Appalachia, an industry that's historically been extremely fragmented.

One precept underlying Alpha's M&A



Kevin Crutchfield

that we announced our offer to acquire Massey Energy in January 2011, which was the largest operator in Central Appalachia at the time. With that integration substantially completed I was appointed chairman of Alpha in May of 2012.

I've loved every day at Alpha—well, maybe not every day, but *most* every day—because of what we've been able to build here in just a little over ten years' time. It's truly a unique enterprise with the most genuine and hardest working folks in the business. And at the heart of it is a set of simple, enduring values that include the Golden Rule and watching out for each other in the mines. It may sound clichéd, but that's truly how we work and live—our *Running Right* process is a shining example of how we honor our fellow workers and watch out for their safety. Being a part of the Alpha family has been a very meaningful and educational experience for me and it's been an honor to belong to something that has made such a difference in the lives of so many.

Coal News: *Alpha has a relatively short but colorful history. Tell us about that please.*

Kevin Crutchfield: It's a pretty remarkable success story, starting literally from a concept scribbled on a piece of paper to becoming a global leader in coal supply in just 10 years—from an idea to the number 2 U.S. coal producer by revenues, and among the world's top 5 suppliers of metallurgical coal.

Along the way I'd say we've been one

strategy has been to diversify our operations and thus mitigate risks from being overexposed to any one revenue driver—whether its diversity of geography and basin, surface versus underground mining, met versus steam coal, or domestic versus export sales.

Foundation Coal is an example. We added efficient and productive Northern Appalachian longwalls and large Powder River Basin mines to our portfolio, which helped underpin Alpha with solid baseline cash flows and diversified markets and customers.

With the Massey acquisition in 2011, we knew combining our assets made sense—we would gain substantial production and logistics efficiencies, further our export capabilities on the East Coast and Gulf, add great met coal reserves, and gain good people who were accomplished operators in Central Appalachia.

But we also knew, in the public's eye at least, that Massey had a controversial reputation and we'd have to overcome that as we worked diligently through some of the legacy issues. Throughout we've worked hard to keep our eyes on the vision for the future rather than the past and implement Alpha's operating model of *Running Right* to create something of enduring value.

Coal News: *Describe for us please the organization and facilities of Alpha today as well as the acquired operations.*

Kevin Crutchfield: We've simplified our organizational structure into two regions, North and South, headed by

Mike Snelling and Eddie Bateman, and both of them have top notch management teams. Mike's North Region consists of a good number of underground and surface mines in central and northern West Virginia, our Pennsylvania operations which include the Emerald and Cumberland longwalls and AMFIRE mines, and our Eagle Butte and Belle Ayr mines in the Wyoming's Powder River Basin. Eddie is responsible for all mines and support facilities in southern West Virginia—south of about the Beckley area—and our operations in southwestern Virginia and eastern Kentucky.

Altogether within the Alpha organization we currently have over 80 surface and underground mines, 25 prep plants and 10,400 employees. Those numbers are down considerably from the end of 2011 when following the Massey acquisition we had 145 mines and four thousand more employees.

That's a reflection of the major internal optimization we undertook the last couple of years to slim ourselves down to our most optimal and best performing set of assets and match them to the structural and cyclical changes that have taken place in the coal markets. We've taken about 40 million tons of capacity off line, without impairing the overall franchise.

The adjustments we've had to make haven't been easy. Having to tell good people that there's no job for them because demand is flagging for their coal is among the hardest things one has to do.

Coal News: *Safety is of vital importance to us all. Please tell us about Running Right and the results being achieved.*

Kevin Crutchfield: *Running Right* is our culture. It's conducting business in alignment with our core values. A great demonstration of this is our behavior-based safety process that got its start in 2004 when Alpha experienced two underground fatalities within days of one another. We asked ourselves, why did this happen and what can we do to create a platform for change? After some deep soul searching and reflection, we decided that getting every single one of our employees involved and giving each a voice was the course that made the most sense.

We, along with the help of many of our employees, came up with an observation-based process that gets everyone involved in watching out for safe as well as at-risk behaviors. It's an anonymous process, and every observation card gets read and acted upon.

Sometimes people are skeptical at the outset, especially reporting someone else's at-risk behaviors, but once they see it is done out of caring for each other, buy-in happens and the process takes off. Last year we had record engagement in *Running Right* with more than one mil-

lion employee observation cards submitted—yes, that's from just 10,000 employees. So people are highly engaged. And as observations and suggestions have gone up, accidents have declined. There's a clear correlation. In fact, last year we had our lowest rate of on-the-job injuries in our history. We also had 100 operations and work groups go the full year without a single reportable accident.

Another huge step forward was opening our Running Right Leadership Academy last year in Julian, W. Va. It's really the first of its kind, a 136,000 square foot educational facility and comprehensive training ground for mine safety and operations. We've had nearly 22,000 students and participants pass through its doors in just our first year, which is extraordinary. We also provided more than 200,000 hours of training in the Academy's first year. The Academy team does a fantastic job and we look forward to continuing to see it develop in the years ahead. We have already had a number of companies, both domestic and international, express interest in training at the Academy, which is exciting and says to us that we are getting it right, and meeting a need that was out there in the industry.

I'll point out too that demonstrating *Running Right* isn't just the province of our safety teams and systems. It also extends into the area of environmental stewardship. We recognize that mining has environmental impacts, so it's always been our goal to minimize the duration and severity of that impact. We've received many awards for having accomplished that, and the work never stops.

Coal News: *Describe the challenges the industry faces as you see them. Any bright spots?*

Kevin Crutchfield: What's been abundantly clear, as these winds of change swirled around us the last few years, is that you can choose to control your own destiny or you can be controlled by it. We chose to be a first mover, and took action quickly to rationalize our operating assets based on the structural changes we saw taking place in the market. We've also moved aggressively to take costs out of the business. These have been the most difficult conditions I've seen in my career and it's taken a strong stomach to pare back so much.

I think one bright spot is that our tendency towards fiscal conservatism has prepared us well to deal with today's challenges and future opportunities. Through a series of capital markets transactions—and prudent allocation of capital—we've maintained excellent liquidity in the range of \$2 billion and pushed near term debt maturities into the out years, both of which give us a

longer runway to maneuver through the current down cycle.

As far as the challenges, they're well known—an overzealous regulatory agenda in the U.S., serious competition from natural gas and its growing market share, and continuing misconceptions about coal and the eagerness of environmentalists to capitalize on those. Generally speaking the public lacks a full understanding of the global energy picture—for instance, there's probably a great over-estimation out there of what renewables can do and how much energy they provide in reality here and globally.

I will say this: in spite of our many challenges, the fact remains that coal powers 40% of electricity grid globally, it's been the fastest growing fuel in the last decade and it's expected to surpass oil in the next 2-3 years.

Knowing that we've always lived through cycles in this business, better days will surely come.

Coal News: *How do you see the new normal for the coal industry?*

Kevin Crutchfield: Obviously, the new normal means thinking and acting globally rather than locally. If the new EPA carbon dioxide emissions rules are fully enacted, the U.S. coal industry may have to shut down a fourth of our nation's overall coal production. For much of my past career, for the most part the normal

was that we had all the customers and the orders we ever needed right here in the United States. The EPA changed that along with the breakthrough in hydraulic fracturing technologies for natural gas.

If we look outside U.S. borders, there's a highly promising horizon in front of us with the promise of lots of growth. Most of the really meaningful growth will take place in emerging and frontier economies. Those who can serve those economies with fuel needs will do well, and Alpha intends to be part of that calculus.

Part of the new normal for coal is still playing itself out, though. One example is the backlash that's starting to take place in Europe over forcing renewables through massive subsidies that are driving electricity bills skyward. German's vaunted manufacturing sector is hugely concerned about its global competitiveness and threatening to move plants elsewhere, now that misplaced policies have driven up their electricity prices higher than anywhere else in Europe.

This goes to show that, at the end of the day, energy costs matter...they matter a lot. It will be interesting to observe how the defenders of the poor and the underserved—that is, progressive liberal and left leaning groups and parties—how they will react as the poor and underserved continue to get squeezed in the name of the climate and other priori-

ties pushed by these same progressive liberal groups.

Back to the U.S., on balance, natural gas is a good thing for the United States as it's an indigenous energy source and can help keep our manufacturing base competitive globally. We will continue to battle with gas for market share, but anyone who thinks gas prices will remain low for a long time horizon is in for a surprise, especially as greater demand for it begins to play a bigger role in our energy future.

Other harbingers of the new normal for coal are the continuing consolidation and reduction of assets, which I expect will occur over time to service a smaller U.S. market, and also a continued trend toward short term pricing, advantaging the lowest cost producers.

Coal News: *What would you like your biggest contribution at Alpha Natural Resources to be for you to be remembered?*

Kevin Crutchfield: I think the most meaningful legacy anyone in this business could ever hope to leave behind is having a record of doing everything you could have possibly done to protect the safety and health of our coal miners. Mining is still up there among the hardest and most honorable work a person can do and I genuinely admire our miners and care about them and their families very much. To me, there is nothing more

important than watching out for the well-being of our brothers and sisters so they return to their families safely every day.

We founded this company on the belief that not only could the tough job of mining be made safer, but that every conversation could be constructive and that everyone had a voice and every voice mattered; that every decision didn't have to be made at the top, and that an environment built on truth, trust and caring would make for a great place to be. These are principles I hope endure forever at Alpha.

Beyond that, I would hope to have created an environment where people had opportunities to learn and grow and collaborate with others to develop a sustainable business for the long term that they could stand back and be proud of. Certainly there have been challenges to that, but we've been working through them very deliberately...and I firmly believe we can sustain a great company for the long haul.

Coal News: *My last question is how do you see the future of coal both here and around the world?*

Kevin Crutchfield: As much as radical environmentalists hunger to move 'beyond coal,' and much to their chagrin, coal is not going away. In fact, it's just the opposite: coal is expected to overtake oil in the next few years as the world's No. 1 energy source. It's going to

remain an important, necessary fuel for base load power generation and for making steel in this country and abroad.

The U.S. exports three times as much coal as it did just 10 years ago. So people outside the U.S.—for that matter, people outside the Beltway—don't view coal as yesterday's fuel. It is what stands between poverty and prosperity in many parts of the world. Remember, hundreds of millions of people globally do not have access to electricity and, trust me, despite rhetoric to the contrary, those nations have made their decisions on fuel.

Coal fueled our prosperity here in the US, at least in part, and it will do likewise across the globe in the coming years. It's abundant and affordable. The world uses 8 billion tons of it, and 8 billion tons of anything is a big deal.

Also, worldwide steel production hit 1.6 billion tons last year, meaning it's grown 33 percent in just five years. Alpha has at least 70 years of metallurgical reserves at current production levels, so we can serve our markets for a long, long time.

For sure, there will be cycles that test us like we're experiencing now, but again, our eye is on the future and that future, despite the current circumstances, looks promising.

Coal News: *Thank you very much indeed for taking the time to talk to us.*