

Consol's Pa. coal complex setting production records but keeping focus on safety

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By Taylor Kuykendall



Scott Watson, an assistant superintendent with Consol Energy Inc., prepares to ride to the mining face of one of the company's longwall mining operations at the Enlow Fork mine. The mine is one of three that make up the company's highly productive Pennsylvania complex.

Source: S&P Global Market Intelligence

Despite an ongoing secular decline in domestic consumption, Consol Energy Inc. is set to post a record coal production year from its three-mine complex in Pennsylvania, a sprawling underground mining operation several times larger than the island of Manhattan.

The company has not only survived but thrived during an overall decrease in U.S. coal demand by locking up contracts with customers at home while taking advantage of a recent boom in demand for its coal overseas. The well-capitalized longwall coal mining complex, consisting of the Enlow Fork, Bailey and Harvey mines, reported 6.4 million tons of coal produced in the third quarter despite several geological challenges encountered earlier in the year, a feat its executives

and employees attribute to the company's culture.

Consol's success has stemmed from empowering employees to make important decisions in the workplace, said Todd Moore, general manager for safety.

"We're right in the heart of some of the best coal reserves in the world," Moore said shortly after a tour of the Enlow Fork mine. "The infrastructure being properly funded, the people being properly staffed, people enjoy coming to work and being well paid for what they do when they come here — I think all that plays into us being successful."

The company earned an average revenue per ton of \$47.21 on coal mined at the complex in the third quarter, up from \$44.16 in the year-ago period. The average cash cost of coal sold per ton was about \$30.88, down slightly from \$30.94 in the third quarter of 2017. Year-to-date productivity, a measure of coal mined per man hour, at the complex has tracked approximately 6.2% higher compared to the year-ago period.

"In our long history covering the coal business, we cannot remember a time where the asset has performed as consistently well as it has in recent quarters," Seaport Global Securities analyst Mark Levin wrote in a Nov. 1 note about Consol's mining complex.

Focus on safety drives operations

The notion that safer miners are also more productive is not new to the industry. The National Mining Association's CORESafety program, a voluntary industry effort that aims to reduce accidents and injuries, encourages operators to go beyond state and federal safety requirements by emphasizing that increased safety is not only good for workers, but also can help avoid costly shutdowns and reduce the costs of insurance, worker's compensation and other costs.

Improved health and safety systems can also promote better work procedures throughout the organization, leading to fewer accidents and less downtime. Employees can stop any process or operation at the mining complex if they feel something unsafe is occurring, Moore said.

Consol's 2017 annual report said the reportable incident rate at the company's mines from 2013 to 2017 was 39% lower than the national average for underground bituminous coal mines, and in 2017 its rate of significant and substantial citations per 100 inspection hours from the U.S. Mine Safety and Health Administration was about 33% lower than the industry's average.

The company, along with Komatsu Mining Corp., was recently awarded the 2018 National Institute of Occupational Safety and Health (NIOSH) Mine Safety and Health Technology Innovations Award for work to implement a first-of-its-kind shield proximity system for use in U.S. coal mining operations. Since the personal proximity detection system was implemented in December 2017, there have been no incidents involving automated shield movement and humans at Consol's longwall operations, according to an Oct. 3 news release.

Focusing on safety, Enlow Assistant Superintendent Scott Watson said, complements a highly productive operation. The mine prides itself not only on posting high production totals but doing so with as few accidents as possible, always striving for zero.



Workers monitor the operations of the longwall mining machine at Consol Energy Inc.'s Enlow Fork mine in Pennsylvania during a tour of the operations in November.

Source: S&P Global Market Intelligence

"Yeah, they're proud of production and everything, but every goal we have has safety at the forefront, safety and compliance," Watson said. "You have to be careful with what you motivate with. ... The key is that the carrot you put in front of them is not production-based."

Frank O'Brien, a safety supervisor at Consol, said he has worked at other operations and believes Consol is running the "most modern, technological and safest mines in the country."

Optimistic outlook after strong performance

Earlier in the year, Consol President and CEO Jimmy Brock told S&P Global Market Intelligence he is a "firm believer that coal is going to be a viable part of the energy mix for the foreseeable future" but added that the industry would have to do things differently than in the past. That includes working within the company's cash flow and paying off debts or returning cash to shareholders versus simply growing coal volumes through mergers and acquisitions or rolling out new mines.



A worker carries supplies underground at Consol Energy Inc.'s Enlow Fork mine in Pennsylvania.

Source: S&P Global Market Intelligence

Even before Consol Energy was spun out from a predecessor that focused on both coal and gas, the company was looking for new ways to survive declining demand in coal. In a 2015 interview, a Consol executive told S&P Global Market Intelligence that after shedding some highly productive coal mines from its portfolio, the company was zeroing in on contracting business with the large, "must-run" power plants.

At a May industry conference, Consol Chief Commercial Officer Jim McCaffrey said that while the company was interested in more "creative contracts" to secure domestic coal business, he has also been "blown away" by overseas demand in places like India.

"We're not going to abandon the domestic market, but we are going to go where our netback and returns to shareholders are best," he said.

Since then, the company has reported that domestic utilities have been showing a willingness to again enter into longer-term contracts. At the end of the third quarter, the complex was 90% contracted for 2019 and 44% contracted for 2020, assuming annual sales volumes of 27 million tons. Because of strong operational performance at the Pennsylvania mining complex and robust production anticipated in the fourth quarter, Consol recently raised the midpoint of its coal sales volume and adjusted EBITDA guidance range.

"Looking forward to 2019 and beyond, we are in very good shape," Brock said on the company's third-quarter earnings call. "With low domestic coal inventories and a strong export market, we are very comfortable with our prospects to contract and optimize our portfolio."