



COMMONWEALTH OF KENTUCKY
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The Honorable Barack H. Obama
President of the United States
The White House
1600 Pennsylvania Avenue
Washington, DC 20500

Dear Mr. President:

I am honored to be invited to meet with you to discuss energy issues, especially those related to coal production and use and meeting the nation's future energy needs in a carbon-constrained world. Energy and environment are inextricably linked - all sources of energy have an environmental impact. We all want to do the right thing, to use our natural resources, whether fossil-based or renewable, in as an environmentally sustainable manner as possible.

As governor of a major coal-producing state that generates more than 92 percent of its electricity from coal, I know there is much at stake in these discussions. Kentucky's industrial development has occurred because we've had relatively low electricity rates based on coal-fired generation. We are the 3rd largest in automobile manufacturing (behind Michigan and Ohio), and we produce 30 percent of the nation's stainless steel and 40 percent of the nation's aluminum. We do this in a state that has only one and a half percent of the nation's population. In other words, states that do not have the benefit of low electricity rates nonetheless benefit from our ability to produce, domestically here in the United States, the automobiles and industrial materials that are key components of our nation's economy.

Kentucky exports more than two-thirds of our coal to other states, and the nation as a whole relies on coal for about 50 percent of its electricity needs. Approximately one half of the states rely on coal to provide at least 45 percent of their electricity generation. Realistically, to meet our nation's growing energy needs in the next 20 to 30 years, coal will have to continue to be a substantial part of the mix. A primary goal of my administration is to help Kentucky chart a path toward a more diversified energy portfolio to support Kentucky's and the nation's energy security, economic development and climate change objectives. However, technological and economic constraints prohibit rapid changes away from our current energy portfolio, both within the state and nationally.

During our work on an energy plan for Kentucky, much analysis went into the possibilities for renewables to generate electricity in the state. We simply do not have the solar and wind resources for baseload generation in the state, and we are not alone in this regard. While we have potential for biomass and are developing substantial plans to mitigate greenhouse gas emissions using these renewable resources, efforts to ramp up production of in-state biomass resources is also a high priority.



With these points in mind, I hope you understand my concerns over recent events at the federal level that appear to have the goal of turning coal into a marginal resource. The current focus on coal is not just a Kentucky issue, it's not just a coal-state issue, it is a national issue. The future of our nation's energy security and economic development depends on our ability to continue using our coal resources, our most abundant, reliable, and low-cost energy source.

A particular concern is with delays in review of surface mine permit applications, 49 of which are undergoing enhanced review by EPA, including procedures that have not been promulgated through the regulatory process and are in fact still in draft form. To subject permit applications, many of which were filed 5 years ago, to retroactive scrutiny is not consistent with the stated objectives of the June 11, 2009, Memorandum of Understanding between the EPA, the Department of Interior, and the U.S. Army Corps of Engineers to provide consistent and timely review of permit applications under existing law and regulations.

Recently, EPA has also requested extensions in review time to address potential concerns related to the discharge of wastewater in proposed permits for coal mining operations in Kentucky under the National Pollutant Discharge Elimination System (NPDES) program. Among these issues is how to address water stream conductivity, to which there are no existing water quality standards at either the state or federal level. The scientific research establishing levels that cause water quality degradation has not been concluded, and harmful levels will, by the nature of conductivity, vary for a number of reasons. Kentucky is requesting that EPA continue to evaluate, along with Kentucky and other states, the scientific and engineering parameters necessary to address conductivity impacts and control measures. In the interim, until these new procedures and requirements are properly established, Kentucky and other states are obligated to review proposed operations following existing, promulgated rules, and EPA should continue to review state permits in the context of these existing regulatory requirements. Kentucky shares EPA's goals to protect water quality, and has recently instituted a consensus-developed design protocol to minimize the impact on streams from mining operations.

We support your goals to reduce greenhouse gas emissions; however, we can anticipate electricity rates to increase significantly under any legislative or regulatory approach to limit emissions through a cap-and-trade or other climate change program. These rate increases will not only affect residential consumers, but will pose a huge burden on energy-intensive industries such as steel, aluminum and auto manufacturing. If these industries leave Kentucky, they will not re-locate to another state - rather, they will move to other countries. Technologies for capturing and storing carbon dioxide from traditional coal-fired power plants must be supported, and sufficient time frames for commercialization of these technologies should be factored into greenhouse gas mitigation policies. We applaud the efforts of Secretary Chu and DOE to make this a priority. Commercial availability of these technologies is seven to ten years away. Even when these technologies are commercially available, parasitic load increases will be significant and costly (up to 65 percent more expensive to produce electricity), especially on pulverized coal plants, which represent 99 percent of the coal-fired generating units in the country.

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In the meantime, efforts to construct newer, cleaner coal-generation facilities are being thwarted, by both federal policy actions (EPA's recent Order on a proposed IGCC facility) and by environmental organizations. However, our nation's existing coal-generation fleet has an average age of 40+ plus years, and these older facilities are not only much less efficient, they contribute a higher percentage of carbon dioxide emissions than would newer advanced coal-technologies. Advanced coal-generation needs to be afforded the same opportunities that renewable generation and generation from natural gas are being given. In fact, the movement toward natural gas for electricity generation should be of great concern to all of us because of the higher reliance it will place on imports and because of its inherent price volatility.

My goal is to ensure Kentucky is a key player in meeting the nation's current and future energy needs. We can improve surface mining techniques, and our recent proactive steps to minimize stream impacts show this can be done in a collaborative manner. My administration's legislative agenda for 2010 includes provisions for a clean energy portfolio, including mandated renewable, efficiency, and low-carbon electricity generation standards and provisions to establish a legal framework for carbon dioxide storage. Kentucky's goals for improving energy efficiency are among the most aggressive in the nation. Through my energy plan, we have charted a course to reduce energy demand through efficiency 18 percent by the year 2025. Energy efficiency is the easiest, most cost-effective means for achieving our greenhouse gas emissions reduction goals, and we are grateful for your federal stimulus funding in helping us to accelerate these efforts. Our goals for increasing renewable resources through woody and forestry crop biomass resources are similarly aggressive and will further help us to reduce greenhouse gas emissions, both in production of alternative fuels, and more significantly, in producing electricity. Many existing coal-fired electricity generating units in Kentucky can co-fire biomass with minimal retrofits to the boilers.

Our partnership with Argonne National Laboratory to develop an advanced battery manufacturing research and development center will further the nation's efforts to make plug-in electric vehicles commercially viable. The center will aid nationwide efforts to develop and deploy a domestic supply of advanced battery technologies for vehicle applications to assist in securing U.S. energy independence, reduce greenhouse gas emissions, and help in strengthening the economy.

As a state and as a nation, we have to be realistic about meeting our baseload energy needs, and therefore, the importance of coal production from all areas of the country, including Appalachian states, and coal for electricity generation must not be unduly hampered. At the same time, we have to strategically plan for meeting the nation's energy needs through a newer, cleaner energy paradigm. I intend to make Kentucky a leader in this area, and I look forward to working with you and members of your administration to achieve these goals. Thank you for the opportunity to meet with you. Again, it is a great honor and privilege.

Sincerely,



Steven L. Beshear