

NATURAL RESOURCES KEY INDUSTRY NETWORK (KIN) MEETING
November 3, 2015
Helena

ATTENDEES: Todd Myers, Co-Chair
Loren Rose, Co-Chair
David Brown
Jeff Chaffee
Greg Gannon
Dick Johnson
Mike Newton
Rick Nelson
Rick Franke (representing Dan Daly)
Paul McKenzie (representing Chuck Roady)
Gary Marks
Ryan Palma
Nancy Schlepp
Brent Wadman (phone)

STAFF: Tom Kaiserski
Jim Molloy
Janice Wannebo
Michaela Wolfinger

GUESTS: Ray Beck, Deputy Director, Dept. of Natural Resources & Conservation
Todd O’Haire, Cloud Peak Energy
Peggy Trenk, Treasure State Resource Industry Association

Todd Meyers and Loren Rose began the meeting with introductions.

Preliminary Comments

Jim Molloy provided an overview and description of the KIN recommendation process (problem statement followed by recommendation). Described what the Energy KIN is doing with DEQ and the Major Facilities Siting Act.

Current Headwinds Facing Montana’s Natural Resource Industry

Tom Kaiserski began by recapping the March 2015 Natural Resources KIN meeting. There have been significant changes in the Natural Resource Industry since March. The conversation progressed into a round table discussion on the status of the companies in attendance as follows:

Brent Wadman – Stillwater Mining Company, Commodity prices in the tank and probably will be for a while. He has seen an increase in NGO activity. He predicts that by 2020 EPA will be larger; pressures from NGO’s will not change – if resources get shut down here they will go to where there are not environmental controls.

Rick Franke – Roseburg Forest Products are down which is effecting fiber supply, forcing them to obtain fiber farther from the plant, into Idaho, which is upping transportation costs that are hurting them.

Markets are such they'll see more curtails. Energy consumption and costs have gone up while the industry faces increased pressure from EPA, U.S. Forest Service and urban areas outside of Montana.

Mike Newton agreed with Franke adding that EPA has gone too far with its digital information related to permits which ends up requiring companies to publish too much information divulging trade secrets. He also cited the lack of a federal highway bill as another problem for Fisher Sand & Gravel; in short the federal situation is broken and needs to be fixed.

Rick Nelson with Plum Creek noted his company is procuring 65% of its veneer for its plywood plant from Canada; that supply should be coming from in-state – more access to U.S. timber is needed. He commented that world lumber markets are taking over and the recently expired Softwood Lumber Agreement with Canada is a big deal to the Montana timber industry.

Greg Gannon of Trident Cement noted the plant is in its 105th year of operation. Rules on four pollutants adopted by the federal government add an estimated \$30/ton – 30% increase to cement - all increased costs with no production benefit to the company. Trident is participating in the Montana Mining Association an education committee, which is a body similar to this KIN. He mentioned that the Golden Sunlight Mine's 200 jobs are threatened because of potential shutdown of the mine in these low commodity prices.

Gary Marks said the post and pole market is strong and his Clancy plant could sell more product if it had more access to federal timber. He commended the Governor for the recent work he has done to make more state timber available. Marks recommended the state spend money to advertise natural resource industries to help change negative perceptions.

Ryan Palma noted that the natural resources industry needs to tell its story better and to do that it needs to use the power of social media to tell people that they still need coal, timber, etc. His company, Sustainable Lumber is working hard at telling their story but the industry as a whole is not educating and as a team the KIN needs to work on that focusing on the use of social media.

Nancy Schlepp commented that Tintina's planned Black Butte mine near White Sulphur Springs is the first new hard rock mine in 30 years to apply for a permit in Montana. Its ore body has the highest grade copper in the world under permit, it's all on private land and it will all be underground mining. The company proposes leading edge environmental measures including employing cemented backfill, never leaving more than 1% open and using Reverse Osmosis for water treatment. The company has used social media for outreach and held early stakeholder meetings. The mine will create 230 new jobs and could open in 2020 (best case scenario).

Paul McKenzie of Stoltze Lumber said managing fiber supply is its greatest challenge and right now the plant is operating at only 65% capacity. The Columbia Falls plant employs 120 directly and contracts with another 85 workers and retaining and recruiting employees is a tough job they need to work on.

Right now there are 6 million acres of dead trees on federal land and federal agencies agree something needs to be done to deal with that. Industry needs to influence public sentiment better because NGO's have a minority voice that has a lot of power – promote programs like Health Families / Healthy Forests. Paul also commended Governor Bullock for his work to make more state timber available.

David Brown of Wyo-Ben based in Billings is 65 years old and all of its bentonite is mined in Wyoming. The company serves lots of international customers and oil and gas is a large customer using bentonite in drilling mud. The current drop in rig count, due to low oil prices, affecting their business has brought about a reduction in force by the company. The company controls 100,000 acres in Wyoming for its bentonite supply, most is federally owned and the company is constantly permitting. He noted that 75% of their land is Sage Grouse habitat so Wyo-Ben was very glad they were not listed as endangered by EPA. Regulatory challenges faced by the company include aligning state executive orders with BLM management plans and Indian rock art preservation and the way the State Historic Preservation Office has been handling that issue. Dave said SHPO has been going too far which is raising some serious road blocks for Wyo-Ben.

Dick Johnson of Ash Grove Cement noted they have a very big general market - lots are used in oil and gas. A very heavy commodity so it is somewhat protected from international competition as it's expensive to transport and generally needs to be produced locally. Ash Grove has its own quarry and raw materials which simplifies their business process. It's a value-added process so this type of manufacturing is very good for jobs. The company is faced with some major problems such as the lack of a federal highway bill, the exchange rate on the dollar has hurt them tremendously and the general price of commodities is off by 20% (due to low oil price). Dick described current situation in Washington D.C. as craziness that can't continue. He noted that current nitrogen oxide (nox) controls are the same anywhere in the country and that is a problem inasmuch as cars produce 90% of the nox so plants located in areas of low populations / fewer cars should not have to meet the same regs as areas of high population.

Jeff Chaffee of Bison Engineering noted that he agreed that industry needs to tell its story better –get the message out that industry is not the problem, it's the solution. He is troubled with the State's Board of Environmental Review overturning DEQ's decisions, its own agency – making reference to its decision overturning Signal Peak's expansion permit. Jeff's message summarized - don't let the regulatory system get hijacked.

Co-chair Todd Myers provided a coal industry update:

The coal industry is very excited about exporting opportunities to China, whose annual coal use alone consumes half the world's annual production. However, with China's economic slow-down, supply overshoot demand and coal prices have dropped and that, along with exchange rate issues, is resulting in the company's decision to exit the export market for at least the next three years. The company is letting go of 30-40 people and will mine 3 to 4 million less tons per year. Todd said Cloud Peak pays the state \$55 million annually in production tax and royalty revenues and that those will be reduced by \$15-

\$20 million annually. Todd noted that increased federal regulations are big problems; noting the Corette plant's recent closure due to mercury regulations and EPA's Clean Power Plan and its effects on Colstrip and power prices in general. They need some clarity on sage grouse issues from the task force and recent permit challenges and court decisions are problematic. Todd asked the question, can the Governor get involved in court. Industry is facing increased pressure from non-profits. All of these pressures, reduced commodity prices, exchange rate and increase regulatory pressures constitute serious headwinds facing the coal industry that will affect jobs, state tax revenues and power prices.

In summary the KIN agreed that all are facing 'headwinds' and some said they are better described as 'attacks' and that serious consequences will result if companies are driven out of business.

The KIN discussed sustainability and agreed all natural resources are hurting due to:

- Low commodities prices
- Exchange rate
- Environmental challenges
 - Regulation – federal, state, international
 - Federal timber supply
 - Uncertainty of supply

The KIN discussed telling its story better. What is the objective of telling the story? Industry wants the government, community to care, need to tell story to next generation, start young. Promote Montana's high environmental standards noting that if natural resources industries leave Montana they will go to other places where environmental regulations are less stringent.

Gary Marks noted the lumber industry used to advertise ("Timber industry - the original tree huggers") but it got too expensive. The group talked about advertising more using social media which reaches many people, especially younger folks. The KIN felt it is important to take stock of where they are. The KIN should gather revenue information to demonstrate the importance of the natural resources industry to Montana and what will be lost if companies are driven out of business.

Facilitated Discussion

Tom Kaiserski led the discussion. Nancy Schlepp noted that the recent Work Force Symposium was good, but that natural resources were not at that table during panel discussion at the event. It was noted that Wyoming has done a good job linking mining with education. Todd O'Haire advised to not underestimate the power of the bully pulpit of the Governor's Office in addressing some of these issues such as the Clean Power Plan. The Governor has an opportunity to build coalitions across the west with his upcoming chairmanship of the Western Governors' Association.

The KIN agreed it needs to meet again to finalize its recommendations to the Governor but wanted to get a message to the Governor informing him of the present 'headwinds' facing the natural resources industry. Jim Molloy offered that this could be accomplished with a letter from the co-chairs to the

Governor informing him of the 'headwinds'. Jim offered that he and Tom Kaiserski could draft a letter for the co-chair's / KIN review before sending it to the Governor.

The group discussed elements that the Governor letter should discuss.

Next Meeting/Steps

Jim Molloy and Tom Kaiserski will draft letter to the Governor for KIN's review (copy of letter attached to these minutes). Staff will work on gathering revenue information. In the meantime, the Natural Resources KIN members need to determine their top 3 industry-related recommendations prior to the January 2016 meeting and be prepared to prioritize the recommendations into the final recommendations to the Governor.

The next Natural Resources KIN meeting is scheduled for January 12, 2016. Details will be forthcoming.

MAIN STREET MONTANA PROJECT

A BUSINESS PLAN *For Montana by Montanans*

November 19, 2015

Governor Steve Bullock
PO Box 200801
Helena, MT 59620-0801

Dear Governor Bullock:

Following the recent meeting of the Natural Resources KIN, we Co-chairs are compelled to provide you with feedback that KIN members offered. The letter before you is not the KIN's final recommendations; we have met twice and will need to meet again to finalize our recommendations. However, the KIN feels strongly that the natural resources industries in Montana have, in the relatively short time since the KIN's first meeting in March, run into significant and potentially existential challenges. Some in the group characterized our natural resource industries as being under siege. The KIN members agreed that this is the result of a general downturn in international commodity markets, strengthening of the U.S. dollar, and increased federal regulatory pressures. Given these circumstances, we feel you need to be informed right away, in advance of our final recommendations, of what is currently a dire situation for Montana's natural resources industries.

All of the KIN members at the recent meeting characterized the impact on their businesses of the current economic situation as very serious; in fact, some KIN members expressed that increased regulatory pressures in effect constitute an attack on their industries at the same time that market conditions are increasingly unviable for many companies at the table. By way of example, coal producers are now losing money on international sales. Cloud Peak Energy expects that as a result of its decision to exit the export market for at least the next three years, its production tax and royalty revenues to the State will be reduced by \$15-\$20 million annually. Environmental litigation, permit processes, and currency exchange rate pressures threaten our mines and plants and create barriers to accessing federal timber. We also see the EPA Clean Power Plan as a major issue, not only as a direct threat to coal mining and coal power plants, but also as an indirect threat to other businesses and industries through higher electricity costs.

The KIN certainly recognizes that issues such as commodity prices and the exchange rate are market factors that are largely beyond the control of state government. With your leadership, however, we believe there are some issues that can and should be addressed by the State that can help our industries.

We are very concerned about the impacts associated with implementing the EPA Clean Power Plan. The EPA mandate threatens Colstrip Generating Station's very existence along with the good paying jobs, tax base, and source of affordable electricity to Montana consumers. A number of natural resource industries are also large consumers of electricity. Any increase in electrical rates will only further weaken our ability to survive in Montana. The EPA Clean Power Plan mandate has the potential to be one of the biggest negative events in Montana's history and every effort must be made to save Colstrip, the good paying jobs associated with Colstrip, and the affordable electricity necessary for our continued success. We applaud your recent creation of the Interim Montana Clean Power Plan Advisory Council and your call for applications for membership. Many of our members look forward to including our voices to this high stakes conversation.

We also recognize that federal regulations constitute some of our KIN members' greatest regulatory challenges. We urge you to exercise your statutory and moral authority as Montana's CEO to fight for common sense federal policies that can help our struggling industries. One of the ways you can do that is working to encourage renegotiation of the recently expired Softwood Lumber Agreement with Canada, without which our already shrinking timber industry will be further impacted by cheap wood imports flooding the market.

It was brought up at our recent KIN meeting that a typical smart phone consists of numerous minerals that are derived from mining – yet many users of these great technologies oppose the development of new mines because they mistakenly regard mining as part of an old, polluting, by-gone industry that lacks relevance. The largest industrial use of minerals produced by the Stillwater Mining Company is in catalytic converters that are crucial to keeping our urban areas from being choked in smog.

We want to emphasize to everyone, and to you, that natural resource industries are the economic foundation of this great State. We understand that you are deeply concerned about climate change and are committed to environmental stewardship. We want to stress that the business community, particularly the natural resources sector, understands those concerns and is equally committed to stewardship of our environment. Too many in the environmental community have gone to extremes however, pursuing an agenda that is bad for jobs, bad for working Americans, and seems to promote “de-industrialization.” The Main Street Montana Project plan expressly includes a goal to “responsibly develop Montana's natural resources for long term economic growth.” In sharing this goal, our industries provide many high-paying, family wage jobs. Yet, our industries' importance to the overall economy is frequently overlooked by policy makers, economists, environmentalists, and the general public that instead seem to focus on the “new economy” and its hi-tech and web based industries; forgetting that is the natural resource industries which provide the raw materials required for these jobs and businesses. We want to stress to you that there will be serious adverse economic consequences to our State if some of our important natural resource industries are driven out of existence by these challenges, pressures, and attacks. We would also point out that if these natural resources are not produced in Montana, they will be produced somewhere else and the economic benefits will also go elsewhere.

Before closing, we would be remiss if we did not also express our sincere appreciation for the steps you have taken to address the availability of timber for our mills, and for your leadership with respect to the possible listing of the Sage Grouse. We recognize your valuable leadership in both of these important matters, and we request that you provide the same critical leadership in designing a “right for Montana” approach to the Clean Power Plan regulations.

We plan to meet in January to arrive at recommendations for your consideration to enhance the economic viability of our industries, as well as the economic strength of the State. In the meantime, as stated at the outset, our KIN asked us to forward this letter to you to convey the urgency and importance of having State support for the lumber, coal, hard rock, and other natural resource businesses that contribute so fundamentally to the Montana economy. We stand ready to provide the data, explain the issues, and work with you to help us tell our story. We thank you for your effort to engage all of Montana’s businesses through the Main Street Montana Project and we look forward to submitting our final recommendations to you in early 2016.

Sincerely,



Todd Myers
Cloud Peak Energy



Loren Rose
Pyramid Lumber