Coal Industry Faces Increasing Financial Risks

By Gina-Marie Cheeseman | October 23rd, 2012

Many people now realize that coal is a dirty fossil fuel. However, coal-generated power may be an increasingly poor investment, as an updated version of As You Sow's 2011 report, Financial Risks of Investments in Coal, shows. One of the biggest risks to coal is its low-priced competitor, natural gas. In 2011, 42 percent of U.S. power output came from coal, down from 52 percent in 2000, while natural gas accounted for 25 percent, up from 16 percent in 2000. From July 2011 to July 2012, the amount of power from coal decreased to 39 percent while natural gas increased to 34 percent.

Coal also faces competition from renewables like wind power. In some markets, the update points out, wind power "undercuts gas as the price setter, pushing coal further down in the dispatch order." The cost and price of wind and solar are "falling dramatically," while natural gas prices are increasing, and "projected to increase over time." Both solar and wind had good years in 2011. Photovoltaic (PV) module prices decreased between five and 10 percent. A total of 1,855 megawatts (MW) of PV solar was installed, representing a 109 percent growth rate over 2010. A total of 31 percent more wind power was installed in 2011 in the U.S. than in 2010, and accounted for 32 percent of U.S. generating capacity additions.

Other risks that the coal industry faces include:

- Increasing capital costs for environmental controls at existing coal plants and uncertainty about future regulatory compliance costs
- Upward price pressures and price volatility of coal
- High construction costs for new coal plants and unknown costs to implement carbon capture and storage
- Increasing competitiveness of renewable generation resources

Coal industry faces retirements and bankruptcies

The coal industry has had a bad year when it comes to retirement of coal plants. Power utilities have announced the retirement of 46 coal plants since June 2011, which represents over six percent of the total 2011 coal capacity. The updated report predicts that more retirements will occur if gas prices stay low.

Two coal-related companies filed for bankruptcy this year, the update mentions. One of those companies is Patriot Coal which filed for bankruptcy in July. Patriot Coal CEO Irl Engelhardt cited challenges facing the entire coal industry as the reason for the company's financial problems. "The coal industry is undergoing a major transformation and Patriot's existing capital structure prevents it from making the necessary adjustments to achieve long-term success," Engelhardt said.

The other company to file for bankruptcy, Dynegy Inc. also filed in July. The company's subsidiary, Dynegy Holdings, filed last year. The update blames Dynegy's financial problems on "low power prices and high corporate debt." Both bankruptcies highlight the "risks to coal mining companies," the update states.

Natural gas will eventually face the same risks

Natural gas is on a high right now. That will one day change. Natural gas will, according to the updated report, eventually face many of the same risks as coal. The cost and price of wind and solar are "falling dramatically," while natural gas prices are increasing and "projected to increase over time." The update states that "it would be poor financial planning to invest in a generation source that will soon be underpriced by competition."

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