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Keynote Address
“Like Deja Vu All Over Again”
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Slide 2: Introductory Comments

Thank you, Syd, for the kind introduction and for inviting me to give the Keynote Address at this very prestigious gathering of some of the finest intellect and talent in the domestic and international coal industry.

CONSOL Energy has been a part of this conference for its entire 24-year existence. We have presented 27 papers over that time.

CONSOL employees have also been members of the planning committee for the conference, and we have been pleased to support the event both financially and with many participants.

So I am honored to be here with all of you this morning, especially during such a positive period for coal.

You can just feel the enthusiasm in this room for our industry, and for this conference.

I can tell you, there’s also a lot of enthusiasm and excitement in CONSOL Energy’s boardroom.

And our enthusiasm is mirrored on Wall Street.

But there remains an ironic twist to all of this attention. Even when times are good, the coal industry seems to go largely unnoticed by the mainstream.

Outside of West Virginia and other coal-producing regions, the industry still seems to lack influence and support, at least here in America.

As an example, last month, an ABC News crew visited our Blacksville 2 Mine, near here, to do a feature story on increased employment in the coal industry.

One of the comments from the news producer was that “we didn’t even know that the coal industry still existed. We want to put you back on the map.”

That was truly an astonishing comment. I didn’t even know that we had dropped off the map.

Today’s coal industry can be characterized, as Yogi Berra said, “Like Deja Vu All Over Again.”

Slide 3: Coal – Reality versus Perception

What’s startling about the ABC News producer’s comment is that here’s an industry that accounts for more than half of the electricity produced in the United States, that generates about $60 billion in total annual revenues, that employs more than 100,000 people and accounts for hundreds of thousands of other jobs and yet was unfamiliar to a member of the national mass media, an important provider of information.

And this attitude about coal comes not only from people outside of the coal regions, but even from within.

CONSOL hosts many underground mine tours for local teachers, business leaders and others. Some of their reactions are pretty similar:

“Are we still mining coal?”
“Does the industry still exist?”
“Didn’t they quit mining coal decades ago?”
Such attitudes about the industry are, at the same time, both remarkable…and disconcerting.

Just look at some of the titles of the presentations being given during this conference:

**Slide 4: Geotechnical Contributions**


“A System to Provide Early Warning of Impending Goaf.”

(PAUSE)

What’s a Goaf?

Or, one of my personal favorites: “Half a Career Trying to Understand Why the Roof Along the Longwall Face Falls in from Time to Time?”

There are many, many others, too numerous to mention.

But does it matter that those in the mainstream are not familiar with the important work that you do?

Not really.

Does it matter to those of us who truly marvel at the work that you do?

Absolutely.

All of your detailed studies, your data collecting, your computer modeling, your countless hours in the field or in the laboratory make such a substantial contribution in terms of safety and productivity that the industry literally could not function without you.

You are all much appreciated by those of us in the industry who truly know you and understand the necessary work that you do.

**Slide 5: Industry Safety Improvement**

And none of your work is as important as that which ensures the safety and health of our employees.

As an industry, we have come a long way since rural settlers first started chipping away at outcrops of coal they happened upon.

From the days when accidents and fatalities were a regular -- and accepted -- occurrence in our industry.

Back about 100 years ago, in 1907, more than 3,200 miners lost their lives in U.S. coal mines, probably many of them due to roof falls or explosions, all symptomatic of the lack of attention to ground control and the physical structure of the mine. Work that you are now performing.

To modern industry ears, that’s intolerable.
Last year, in the United States, there were 28 fatalities, three of them due to roof control or other structural problems.

And even though that is small in comparison to 100 years ago, as an industry we must continue to strive to eliminate ALL injuries and fatalities in our nation’s mines.

Remember, as I have long believed: A SAFE MINE IS ALSO A PRODUCTIVE MINE.

**Slide 6: Industry Safety and Productivity**

Let’s look at a recent 10-year period that will bear this out.

Between 1991 and 2000, coal mine safety in the U.S. industry improved by more than 30 percent, while productivity increased by more than 70 percent during the same period.

Some of the credit goes to technology. The same technically advanced equipment that makes miners more productive also makes them safer.

But technology alone has not been the only key to improving safety.

Some of the important work that you do will continue to improve the health and safety of the industry.

And though you can give us the knowledge and the means to make our workplace safer and more productive, take no offense, but it goes somewhat deeper than that.

To improve our safety performance to where we need to be – ZERO ACCIDENTS -- we need to remove safety performance from the realm of goals and objectives and into the realm of value and belief.

What I mean by that is we must start with a fundamental. We should seek to install safety as a core value in every person working in the mines.

Any employee – whether a “Red Cap” or experienced, hourly or salary, union or non-union – is ultimately responsible for his or her actions and should be held accountable.

And achieving that goal will give real value to the work that you do.

When a miner has *the right attitude* as he or she enters the work area that you have helped to design and develop, then that individual must respect and acknowledge that you have done your part.

It now becomes time for them to do their part – to show some accountability and belief in that system.

Safety in our nation’s mines must be a matter of cooperation between the workplace and the individual.

With the application of this synergistic relationship, we can expect our safety performances to improve across the board.

And the need for such a relationship has come at a most opportune time.

**Slide 7: Industry Projections – Production and Employment**

With the increasing demand for coal and the growing need for new employees, it is imperative that everyone in the industry begins to build this special relationship among safety, productivity and the workplace.

Peter B. Lilly    WVU Ground Control Conference    8/2/05
In the past, whenever demand for coal grew, we turned to science to help to ensure the health and safety of our employees and to produce coal more efficiently and abundantly.

We needed physics, mathematics, geology, biology, chemistry and economics – and engineers of all types -- to help us along.

We needed the “scientific method” to test our theories and our equipment innovations.

And we needed innovative thinkers at the research level and in management who were visionaries and not afraid to try new things or experiment with new ideas.

Such a philosophy is still much needed today.

At CONSOL, we have designed and tested numerous innovations during our 140 years in operation.

Some innovations have been successful; some are rusting in a field or near a refuse pile somewhere.

In the late 1950s, for example, CONSOL designed, developed and constructed a 108-mile long, coal slurry pipeline to move eastern Ohio coal to a utility customer in Cleveland.

Though it met with little success from an operating standpoint, its existence convinced the nation’s railroads to develop the unit train to move coal more cheaply to market.

**Slide 8: CONSOL Energy – Longwalls and Innovation**

As the decades unfolded, and we weathered numerous downturns and periods of prosperity, we turned to modernizing our underground mines to make them truly innovative and efficient.

No portion of our underground operations was left untouched, since each had an effect on the other.

We knew that to compete we needed to become the best at what we did, which resulted in a total commitment to longwall mining.

That meant making sure that our main ventilation and belt entries were properly established and structurally sound.

That our continuous mining sections operated efficiently and kept pace with the longwalls’ progress.

It meant improving underground transportation and eliminating any bottlenecks that would inhibit both the longwalls and the processing plants.

And it meant developing an entire support structure of specialists to work with property owners and regulators to resolve subsidence issues.

Along the way, we worked with outside vendors on equipment improvements and innovations.

We maintained one of the largest private research facilities devoted exclusively to coal production and utilization.

We partnered with a number of colleges and universities – including WVU – and private research firms to come up with better ways to operate our mines and our business.
From these efforts, we saw such innovations as technologically advanced methods for extracting and gathering methane gas, which led to an entirely new industry and market for CONSOL.

We developed the tramming conveyor, or “TramVeyor,” which had applications for coal hauling at underground and highwall mines.

Working with longwall manufacturers, CONSOL aided in the development of a new generation of shearer and shield technologies that utilize microprocessors and artificial intelligence to enhance safety and productivity.

With the increases in production, many of our mines now have underground coal storage bunkers that aid coal transport and allow us to manipulate production and processing.

It has led to the use of fiberoptics and computers at our mines, which provide mine management with real-time overviews of the operation from the producing face to the loadout.

**Slide 9: CONSOL Energy - Leadership**

Because of these efforts, CONSOL Energy today is the largest producer of high-Btu bituminous coal in the U.S., as well as the largest underground coal mining company.

We operate more longwall mining systems than any other U.S. producer. And through our subsidiary, CNX Gas Corporation, we are one of the nation’s largest producers of coalbed methane.

In order to sustain these operations, we also own and maintain a substantial reserve base for our energy products.

**Slide 10: CONSOL Energy - Vast Strategic Reserves**

Most of our coal resources and production are concentrated in the eastern U.S. This map shows the location, by basin, of our extensive coal reserves and production. Our largest basin is Northern Appalachia, where we have 2.6 billion tons of reserves and last year produced more than 53 million of our total 67.7 million tons.

**Slide 11: CONSOL Energy – Increasing Performance**

Also last year, we completed several expansion projects in order to increase our total production capacity as an insulator against any unexpected developments at a single mine, which would have significant adverse consequences to overall company performance.

With these expansion projects completed, and more planned for the future, CONSOL has created a “new performance platform” for the company.

By raising our capacity from 60 million tons in 2003 to 70+ million tons in 2005, and with more planned for the next 10 years, we have dramatically reduced the risk profile of our business.

This strategy provides us with more flexibility to respond and adjust to unexpected adverse developments that invariably occur with underground coal mining.

This year, we saw our Buchanan Mine in southwestern Virginia idled for several months due to a massive roof fall and subsequent ignition.
In the end, we believe that the loss in production from Buchanan, even though the mine produces a premium and in-demand low-vol met coal, will not have a significant negative impact on earnings this year.

**Slide 12: CONSOL Energy – Increasing Coal Prices**

What will help us weather such an event is the fact that current prices are good and, as we are experiencing right now, any upward movement in demand is immediately followed by an upward movement in price.

An added advantage for CONSOL is that prices have also risen faster than our costs. For example, in the first quarter of this year, our profit margins continued to improve to over $6.50 per ton.

All of this has had a dramatic effect on our markets.

We believe that customers with a significant coal-fired base of generation are recognizing that the days of coal overcapacity have ended.

In this era of strong demand growth and limited supply growth, some power generators are beginning to reevaluate their supply situations.

These customers are approaching us to negotiate long-term supply contracts.

Security of supply is now their primary concern. Price is a secondary consideration.

**Slide 13: Industry – Increased Demand Outlook**

We have every reason to believe that utility markets for steam coal will remain strong for the next several years.

In the short term, coal is the only fuel that can respond to the continued increase in demand for baseload electricity.

And this is exactly what we’re seeing.

Despite a doubling in the price of some eastern coals, demand is still increasing. Utility stockpiles remain lower than normal, helped by the strong economy and hot weather.

Especially among eastern utilities, we will continue to see a movement towards retrofitting scrubbers and using Northern Appalachia high-Btu, high-sulfur coal -- the kind that’s prevalent in the Pittsburgh 8 Seam.

**Slide 14: Changing Steam Coal Markets**

This movement towards scrubbing in the eastern U.S. is being driven by tighter emission standards. Scrubbers remove +95 percent of the sulfur dioxide and between 70 to 90 percent of mercury from eastern high-sulfur coals.

As scrubbers come on line this decade, the market opportunity for CONSOL’s NAPP coal will more than double from 2004.

**Slide 15: CONSOL Energy– Proximity to Customers**

This map shows that our mines are situated very close to a huge, installed base of coal-fired power generation capacity.
Our major mines are within 150 miles of generating capacity that consumes an equivalent of 120 million tons of high-Btu coal, compared to our current capacity of 70 to 72 millions per year.

Logistically, we have a reserve base of 4.5 billion tons of the highest Btu, Appalachia Basin coal, which can continue to serve this market base, first through continued expansion of our existing operations.

And, second, we are open to greenfield development should the opportunity arise.

**Slide 16: Enlow Fork Expansion (EFX)**

But as I just mentioned, the main part of our strategy would be to expand our existing operations in order to retain and increase market share.

As an example, we recently announced the expansion of our Enlow Fork Mine in southwestern Pennsylvania. The mine, which currently produces just over 10 million tons annually, has another 200 million tons of reserves that we can access through this expansion.

This $500+ million project would represent the largest single investment in the history of CONSOL Energy.

Though we do not currently have customer contracts for this added capacity, we anticipate we will within the next six to 18 months. With commitments in hand and subsequent Board approval, we can proceed with development, which we expect to begin in 2007.

**Slide 17: U.S. Production, Employment and Technology**

Overall, the United States coal industry is producing more coal each year on average than at any time in the history of this nation.

Even with employment pressures, production is up – the result of incredible productivity gains made possible through the deployment of increasingly productive and technically advanced mining equipment and ground control techniques.

As you are all aware, today’s mining equipment is not only larger and more powerful, but it is technologically sophisticated.

Computer driven and remotely controlled, current mining equipment puts into the hands of today’s coal miners and mine managers the tools to be more productive than we could have dreamed only 25 years ago.

The technology that has made this possible is operated and maintained by the American coal miner. No longer is the miner’s chief attribute the size of his shoulders or the strength of his muscles. It is the power of his mind.

**Slide 18: What Lies Ahead**

Now let’s look at some challenges for the industry as it relates to the work that you do.

Geology and mining, of course, are two sides of the same coin. Geology determines the type of product that can be produced and substantially impacts the cost of extracting it.

The economics of mineral extraction dictate that you begin by mining the best part of the reserve -- the part where the mining conditions are the best. That means that each day, the next ton you mine is in a part of the reserve not as good as the part you mined earlier.
The recent and projected decline in production from Central Appalachia is a function of mining in increasingly more difficult conditions. Thinner seams, less extensive reserves, higher strip ratios and so forth.

Perhaps we can overcome some of this natural degradation of conditions with the development of better mining equipment, but for the most part, it appears to be the permanent situation in Central App.

Changing geology affects all coal basins. Even the gigantic reserve base of the Powder River Basin is changing. Stripping ratios are increasing, and with that, mining costs.

The point is that geology is the miner’s constant challenge. Whether it is reserve degradation, roof control or high wall stability, mining is not manufacturing. Our factory is constantly moving and changing.

The challenge, then, is to extract coal safely and profitably on a daily basis.

There’s also the challenge of the environment, the one that government regulators and anti-coal forces are so fond of manipulating to their benefit.

Any serious representative of the coal industry does not ask for a retreat from environmental standards, on either the coal production or the coal utilization side.

But we do ask for a re-evaluation of the excessive trend in environmental regulation and interpretation to which this industry has been subjected through the years.

Take the permitting process, for example, an area that most of you are familiar with.

On both the state and federal levels, the permitting cost in terms of both time and effort for new mine development or mine expansion can economically jeopardize the project.

A new underground mine in Northern Appalachia, for instance, will take seven to eight years to permit and construct, and another two to reach full production.

With such a time horizon, producers are unwilling to commit long-term capital simply hoping that market volumes and prices will remain sufficiently positive to justify the investment.

There’s also the challenge of teaching a new generation of industry professionals.

As industry veterans, it is vital that we pass our knowledge and experience to the next generation of mining professionals.

Colleges, universities and technical schools must be willing to work with producers and to commit resources in order to educate and train this new generation of employees.

Believe me, if you prepare ‘em, we’ll recruit ‘em.

Finally, let me say to those of you here who work in the coal industry:

We can be proud of what we do because we are providing nothing less than a vital national service.

At the end of the day, we put the coal we mine into railroad cars, barges and trucks, and we ship it to power plants to make electricity.

Our industry provides a vital public service because coal is the cornerstone on which our electricity supplies are built.

Peter B. Lilly  WVU Ground Control Conference  8/2/05
We have overcome many challenges, but many more await us as we work to ensure the rightful progress of our industry in future decades.

Thank you.

(Q&A)