STATE OF OREGON

STATE OF WASHINGTON

March 25, 2013

The Honorable Nancy Sutley, Chair
Council on Environmental Quality
Executive Office of the President
722 Jackson Place NW
Washington, DC 20503

Dear Chairwoman Sutley:

The U.S. Army Corps of Engineers is reviewing several permit applications for coal export shipping terminals in Oregon and Washington under Section 404 of the federal Clean Water Act, and Section 10 of the federal Rivers and Harbors Act. The permit applications include the Gateway Pacific terminal north of Bellingham, Washington (Peabody Energy - up to 48 million tons per year); the Millennium Bulk Terminals proposal in Longview, Washington (Ambre Energy - up to 44 million tons per year); and the Morrow Pacific Terminal at the Port of Morrow in Boardman, Oregon with a downstream barging component to Port Westward, also in Oregon (Ambre Energy - up to 8 million tons per year). Collectively, these proposals could result in the export of up to 100 million tons of coal per year. The expected end use of this coal is for energy production in Asia. No final decisions have been made on the related applications for state permits for these facilities. Our agencies are committed to a rigorous, fair and objective process to review these applications, within the scope of our respective authorities.

As you know, while coal consumption is declining in the United States, consumption in Asia is driving a substantial increase in global coal use. Although China and India are working to increase their use of other fuels and renewables, coal consumption in Asia has more than doubled in the last ten years. According to the International Energy Agency (IEA), global coal demand will grow by 16.9 percent over the next five years, or 2.6 percent per year. To date, coal exports from the United States have not been a major source of supply for foreign markets, but that is beginning to change. U.S. coal exports already have grown from 50 million tons in 2006 to just under 100 million tons in 2012 according to the U.S. Energy Information Agency (EIA). The U.S. holds the world's largest recoverable coal reserves, according to the EIA, much of which are found on federal lands in the western U.S. The recent interest in coal export shipping terminals along the west coast, along with decreasing domestic demand, is a clear indication that the U.S. could become a significant supplier of coal to Asia.

Coal will inevitably play an important part in the global energy supply in the short term. However, before the United States and our trading partners make substantial new investments in coal generation and the infrastructure to transport coal, extending the world's reliance on this fuel for decades, we need a full public airing of the consequences of such a path. Coal is the major source of global greenhouse gas emissions, and its share is increasing rapidly. Increasing levels of greenhouse gases and other pollutants resulting from the burning of coal, including pollutants other than CO_2, are imposing direct costs on people, businesses and communities in the U.S. and around the world. These costs include the public health costs of increased atmospheric deposition of mercury in drinking water sources, as well as costs resulting from ocean acidification, rising sea levels, wildfires, and shrinking snow packs that are key sources of water for the western U.S.

As the major owner of coal reserves in the western U.S., the federal government must consider whether it has appropriately priced the coal leases that it continues to grant, including the practice of granting non-competitive leases. Senators Ron Wyden and Lisa Murkowski recently asked the U.S. Department of the Interior for information concerning alleged industry practices using in-house trading affiliates to avoid paying royalties that reflect actual export sales. These issues raise significant concerns that we are subsidizing the export of coal at the same time we are winding down domestic consumption due to serious environmental and health concerns.

We believe the federal government must examine the true costs of long-term commitments to supply coal from federal lands for energy production, whether that production occurs domestically or in Asia. We cannot seriously take the position in international and national policymaking that we are a leader in controlling greenhouse gas emissions without also examining how we will use and price the world's largest proven coal reserves.

The Council on Environmental Quality (CEQ) has issued draft guidance for agencies concerning when and how they need to consider the climate change effects of their actions. Given that the cumulative total of coal exports from Oregon and Washington could result in CO_2 emissions on the order of 240 *million* tons per year, well above the significance level described in the draft guidance – it is hard to conceive that the federal government would ignore the inevitable consequences of coal leasing and coal export. We believe the decisions to continue and expand coal leasing from federal lands and authorize the export of that coal are likely to lead to long-term investments in coal generation in Asia, with air quality and climate impacts in the United States that dwarf those of almost any other action the federal government could take in the foreseeable future.

For these reasons, we urge the CEQ in the strongest possible terms to undertake and complete a thorough examination of the greenhouse gas and other air quality effects of continued coal leasing and export *before* the U.S. and its partners make irretrievable long-term investments in expanding this trade. We understand that the draft CEQ guidance under the National Environmental Policy Act (NEPA) that is referenced above is likely to be finalized in the near future, and applaud that step and urge that the new policy be applied to coal export terminal proposals now pending as well as to all future decisions concerning coal leases. We also ask that you evaluate and determine the proper policies for pricing coal leases from federal lands, both as

a matter of securing a fair return for this resource, and to account for the direct costs of the resulting emissions to U.S. businesses and communities. These steps are needed for the U.S. to make sound decisions as the international demand for the coal resources in the U.S. continues to grow, and to ensure that we do not simply pass these tough issues on to future generations.

Thank you in advance for your careful consideration of this matter. We would welcome the opportunity to discuss these concerns in more detail.

Sincerely,

John A. Kitzhaber, M.D.
Governor of Oregon

Jay Inslee
Governor of Washington

cc: The Honorable Ken Salazar, Secretary of the Interior
The Honorable Bob Perciasepe, Acting Administrator, Environmental Protection Agency
The Honorable John McHugh, Secretary of the Army
The Honorable Jo-Ellen Darcy, Assistant Secretary of the Army for Civil Works
The Honorable Lisa Murkowski, United States Senate
Oregon State Congressional Delegation
Washington State Congressional Delegation