

From: <dep.online@wv.gov>

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To: <coalout@aol.com>

Subject: DEP News - DEP Reaches Agreement in Principle With Alpha Natural Resources

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CHARLESTON, W.Va. – The West Virginia Department of Environmental Protection has reached an agreement in principle with the state’s largest coal operator, Alpha Natural Resources, which filed for bankruptcy in August 2015. The \$300 million-plus agreement, which remains subject to a number of contingencies, will pave the way for the bonding and reclaiming of all Alpha’s legacy liability sites in West Virginia, as well as Alpha’s continuing operations in West Virginia.

“Following discussions with DEP officials, Alpha and its secured creditors have stepped up and provided significant funding to provide for bonding and reclamation at those sites,” said DEP Cabinet Secretary Randy C. Huffman. “Another company might have just walked away, leaving hundreds of millions of dollars of reclamation and water treatment obligations to the state’s Special Reclamation Fund. DEP’s actions over the past four years have ensured that significant additional funding will be provided for reclamation, well over and above the amount of

Alpha's mining bonds."

In February, Alpha announced that it would sell its most profitable operations, principally located in Wyoming, to its secured creditors led by Citicorp North America and a group of hedge funds. The sale includes one small underground mining operation in Nicholas County, West Virginia. That sale had the potential to leave all but one of Alpha's West Virginia mining sites with insufficient funds with which to bond or reclaim and treat water at those legacy sites.

DEP objected to approval of the sale in filings with the Virginia bankruptcy court and started wide-ranging discovery of Alpha and its secured hedge fund creditors. This agreement in principle resolves DEP's objection to the sale and to Alpha's subsequently proposed bankruptcy plan.

Under the agreement, the surety bonds Alpha posted to obtain its mining permits will remain fully in place. But Alpha, West Virginia's last remaining self-bonded coal company, will post an additional \$100 million in penal bonds with respect to its active and inactive mining sites in West Virginia. In addition, Alpha will post \$39 million in letters of credit or cash bonds as additional financial assurance for the performance of Alpha's reclamation and water treatment obligations at its other remaining sites in West Virginia.

Alpha has agreed to post penal bonds for, and reclaim and treat water at all its remaining mining sites, including the sites at which it has ceased mining operations. The company and its secured creditors have committed to provide additional funding totaling approximately \$209 million, consisting of:

- At least \$109 million of funding Alpha plans to

provide for reclamation and water treatment over 10 years. The company has made a commitment to provide half of its excess operating cash flow over and above that amount for reclamation and water treatment at legacy sites.

- An additional \$50 million in reclamation and water treatment funding over the next five years the purchaser of Alpha's operations in Wyoming and other states has agreed to provide.
- Alpha's excess operating cash flow commitment, up to an additional \$50 million, will also be guaranteed.

DEP expects West Virginia's share of the funds committed to reclamation and water treatment to exceed 80 percent.

In addition to providing for the reclamation of Alpha's sites, the agreement allows for the continued operation of various mining sites in West Virginia. Profits from the operation of those sites are expected to support reclamation and water treatment efforts

Harold D. Ward, director of DEP's Division of Mining and Reclamation, noted that Alpha's active and inactive sites hold important metallurgical coal reserves, which is used in steel manufacturing.

"The met coal sector has seen early signs of improvement," Ward said. "If the met coal market becomes more vibrant, Alpha will be well-positioned to restart or increase production at those sites and sell some of the world's best met coal out of mines in West Virginia. That would benefit all West Virginians as well as ensure a steady flow of money for environmental cleanup."

Subject to market conditions, Alpha will continue to employ its workforce both in its ongoing operations and in performing its reclamation operations.

“This deal is a win-win for West Virginia,” said Huffman. “Hundreds of millions of dollars in funds will be devoted to bonding and reclaiming Alpha’s mining sites, and its existing workforce will continue to be employed at Alpha’s West Virginia mines.”

The agreement in principle is subject to a number of conditions. In addition to requiring further documentation, Alpha will have to secure the approval of the other states in which it will have continuing operations, as well as various agencies of the United States. In addition, the bankruptcy court must approve Alpha’s bankruptcy plan and the sale of Alpha’s western and other operations to the hedge fund-backed purchaser. Although the deal appears to have the agreement of Alpha’s principal creditor constituencies, including the official committee of unsecured creditors, DEP expects that other creditors may oppose approval of Alpha’s plan and the sale. If the bankruptcy court approves Alpha’s plan and the sale, the sale and plan should be completed by the end of July.

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