

Energy Insider Interview Series

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- 1. CONSOL recently approved its plans to split into two separate entities, with one company focusing exclusively on coal and the other on gas. What was the impetus behind this split, how did it become a reality, and what benefits does it offer over remaining as a single company?**

When you look back, this is a process that we've been planning for quite a while. In fact, it goes back to 2010 when CONSOL acquired Dominion Resources Inc.'s natural gas production, which included nearly 500,000 acres of Marcellus potential. But the real impetus behind the split is that we have two strong business segments, coal and E&P, and combined we don't necessarily realize the full value of each one separately, or the market doesn't realize the full value separately. There's somewhat of a "conglomerate discount" that exists, and we've always thought that, as separate entities, they both have significant growth potential and significant value potential. So, by separating these entities as two healthy, focused companies, we'll have the ability to greatly maximize their value.

- 2. Just a few years ago, CONSOL was one of the nation's largest coal producers and focused a majority of its business on coal energy. Today, CONSOL is still a strong leader in coal but now boasts a truly impressive natural gas business—enough so that the company is large enough to split the two businesses. Why did CONSOL decide to evolve toward natural gas while other coal producers decided to dig in on coal? What benefits did this move offer?**

If you look back through our history, we're a 153-year-old company. We've stayed around that long because we have been able to adapt, be flexible, and adjust to the markets

as they change. Both our former CEO J. Brett Harvey and our current leader Nick Deluliis recognized that coal is not going away. It's going to be an important part of our energy infrastructure for a long time to come; however, part of the coal market was starting to shrink. So, I think they saw an opportunity with natural gas E&P and based on the acreage we had, especially following the Dominion Resources Inc. acquisition, natural gas became a natural fit for us.

We have more surface acreage than essentially any other operator in the basin, and also have a larger acreage position in all of the major areas when you look at Marcellus, Utica and the Upper Devonian. We also have a large acreage footprint that comes from coal, and we've set out to find new ways to take advantage of that acreage as well.

So, over the years we saw the value of the natural gas industry, saw how the coal markets were going to decline, and saw the percentage of power generation that coal has been a part of was going to decrease as natural gas increased. Overall, we timed those changes fairly well.

- 3. Pennsylvania obviously has one of the most abundant natural gas resources anywhere in the country. What is the company doing to ensure its natural gas extraction is as environmentally friendly as possible?**

Well, I think you can go back to our core values. Our No.1 and No. 2 core values are safety and compliance, and I think we have always held ourselves out there as being a responsible operator. Maintaining our role as a socially responsible operator has always been very important to us, and the perception with the public has always been critical. We are one of the four founding members of the Center for Responsible Shale Development,

and we think that's an important part of our social values. We like to think we set the standard for the way operators should conduct their business and behave. Throughout the company, we strive to operate above and beyond what the regulatory bodies require. There's a lot of value in that.

4. At Buchanan, we've helped a lot of companies through the challenges of acquisitions, mergers and splits. What has CONSOL learned during the process, and what has the company done to ensure the process is as smooth and pain-free as possible for employees?

As I said earlier, this has been a process that has been going on well beyond the last year or two. Specifically, over the last two years we have been really focused on our balance sheet and making sure that we put the company in a strong position, so that when we execute the split by year-end 2017, we come out of this with two healthy companies. We believe that each company is going to walk away with assets that are the best in their industry.

Both companies have great opportunity for growth, and we are setting up each of them with a healthy employee base. Because after all, employees play a huge role in helping us take advantage of our opportunities, making the companies grow, and making them successful over the long term. We've gotten to the point where every employee knows that they are either going to be focused solely on coal or solely focused on E&P. We thought that was important, just as important as getting the balance sheet in shape. You can't be successful without the employees, and we needed to have a very clear path for them going forward.

5. When President Trump was elected, it was seen as a great opportunity for energy producers, with promises to roll back regulations and enable companies to put more people back to work. Early on, have you seen any impacts of this new administration and its energy policies on your business as compared to prior administrations?

Overall, I think having an administration that embraces domestic energy has been a huge plus, and probably one of the most visible areas has been with FERC. They got a new commissioner approved, and since our industry has a lot of pipeline activity currently and a lot of pipelines planned over the next couple of years, that is very important for us. We see probably 10 billion cubic feet of additional takeaway capacity being commissioned probably by the end of 2018 or possibly into early 2019, and that additional capacity is critical to the growth and development of the industry overall and to CONSOL. So, I think the pipeline component has been the most visible, positive step the administration has had on us moving forward.

6. The steady loosening of capital markets since the calendar turned was also seen as an obvious benefit to many companies across the country, especially those going through changes such as the separation CONSOL is about to embark on. Have you noticed any benefit of these regulatory changes on the company's ability to split its coal and gas businesses more efficiently?

Well, I think with the change in the administration we've seen a resurgence with coal, and that has had an impact on capital markets loosening up some. But when you look at the impact that it may or may not have had on us, this is a plan we've had in place for a while, and we've been working on it since the previous administration. We have positioned ourselves and laid out the plan for the separation to be successful regardless which administration is in place. It certainly helps with the administration and the overall environment, but I think we were well positioned to be successful for the split regardless of the political climate.

7. As someone who's spent essentially his entire career in the natural gas industry, you've seen first-hand the growth of natural gas into what it is today and what it will hopefully become in the future, especially with regard to CONSOL and its natural gas business. Do you think Wall Street is undervaluing CONSOL with respect to this business? And what is it about the company that you think makes it hard for investors to accurately analyze the company's worth?

When Wall Street looks at us, there are not a lot of companies out there that they can compare us to that have strong coal assets and strong E&P assets. I think the separation gives both entities much more clarity, and makes things much clearer for the Wall Street folks and the analysts. It really helps us start to take back what we think are undervalued stocks.

We're looking at the long-term value that can be created, the long-term health of the company, and how to improve that and sustain it. I think we've got a long road ahead of us, and I think this region and this nation will just continue to grow. I think the Appalachian basin is going to be the premiere basin in the energy industry, if it isn't already, and we're going to be a big part of that. We've been laying out our plans with the split coming and we're excited that we're going to take that final step in the separation. What we do beyond that is even more exciting with the opportunities we have ahead of us. I see a very bright future for CONSOL.

8. CONSOL's hometown of Pittsburgh is a city booming with jobs in the technology and entrepreneurial spaces. The population is getting younger, and the city is getting infused with more and more engineering talent. How has this growth in Pittsburgh affected CONSOL?

I think Appalachia and southwestern Pennsylvania is quickly becoming the energy hub of the country, if not the whole world. We sit on top of the largest natural resource accumulation in the world. When you look at everything from coal down through the Marcellus, the Upper Devonian and the Utica shales, this is a resource-rich asset that has really driven the economic change and improvement in this entire region.

You look at how Pittsburgh has changed in the last 10 years and it's becoming more of a tech market in a lot of respects with Google and Uber, but I don't think that happens without the growth of the shale industry. The ethane cracker plant wouldn't be here if it wasn't for the shale industry, and there's a high likelihood that there will be a second and possibly a third ethane cracker plant in this region, which will drive a lot of other businesses and talent growth as well. We've got a very diversified workforce in this region now, especially compared to what it looked like 10 or 15 years ago. It has gotten much younger, and it's gotten more diverse. We've still got a very strong regional workforce with people that were born and raised here, but it's become much more diversified with national and international talent, and that's a big strength. The energy industry, with the Marcellus and Utica shales, really is the driving force with a lot of the development of this entire region economically.

9. Have you noticed CONSOL getting younger and better able to attract talent from the top engineering schools in the region as a result of this growth?

We've definitely seen our workforce getting younger. Millennials have become a big part of our workforce, and we've all learned to adjust and adapt to an environment that is conducive to that culture. I think we've spent a lot of time creating an environment that is attractive to the younger generation. We target not just the major schools in this area, but we are becoming the energy hub of the country and get more attention from kids coming out of schools in Texas, Oklahoma and Colorado, while still remaining heavily focused on the Penn State area, West Virginia and other regional colleges. We have training programs that are very attractive to recent college graduates and provide them with a strong foundation as they begin their careers in the energy industry.