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TODAY'S TOP 10

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Producers in Powder River Basin continue to show restraint, stockpiles still need to fall

By John Hanou
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H1 2013 PRB production as reported to MSHA was at an annualized rate of 392 million tons (196 million tons for the half). On an annualized basis, this is 9.0 million tons lower than what was produced during H1 2012 (4.5 million tons for the half). This indicates PRB producers continue to show restraint and are trying to set up a market rebound.

However sub-bituminous stockpiles must still drop by 15 – 20 million tons for markets (and prices) to strengthen. With the hot summer and higher natural gas prices, Hanou Energy believes this may happen by the end of 2013. If so, Hanou predicts PRB 8,800 coal prices are expected to rise above \$13/ton – up from \$10-\$11/ton today.

Final 2012 PRB production was 419 million tons. Hanou Energy projects PRB production will drop by 7 million tons to 412 million tons in 2013.

Getting back to PRB H1 2013 production, the mines on the Joint Line of the BNSF and UP railroads in Wyoming produced 153 million tons in H1 2013 or 3 million tons lower than H1 2012. For the year, Hanou projects Joint Line production will top out at 318 million tons or 5 million tons lower than in 2012. The Joint Line record year was 2008 when 375 million tons were produced.

The BNSF-served mines north of Gillette produced 31 million tons during H1 2013 – no change from H1 2012. The Montana PRB mines produced 15 million tons during H1 2013 – up from 13 million tons during the same period in 2012.

The table below shows Powder River Basin (PRB) and Bull Mountain coalfield production by company and by mine for the period 2008 through Q2 2013 as compiled by Hanou Energy Consulting, LLC from the MSHA website.

At the time of this writing, Alpha's Belle Ayr and Eagle Butte mines had not reported their Q2 2013 production. For the purposes of this article Hanou assumed Q2 2013 production for both mines dropped slightly from Q1 levels (about 700,000 tons lower) based on historical differences from Q1 to Q2. With this assumption, more than 99% of the PRB production has been accounted for.

Peabody continues to retain its premier production status among PRB producers with 63.7 million tons produced during H1 2013. Arch was the second largest producer with 52.8 million tons and Cloud Peak was third with 41.5 million tons produced during the half. For the year Peabody is projected to produce about 6 million tons less than in 2012 – 133 million tons in 2013. Arch and Cloud Peak are projected to come in at 106.5 and 90 million tons, respectively.

Regarding Cloud Peak, we have assumed Ambre will meet its August 30, 2013 deadline to purchase Cloud Peak's 50% share of the Decker mine. Ambre needs to obtain \$71 million in financing to do so.

Peabody also continues to have the largest mine in the PRB as well as the nation. Its North Antelope-Rochelle (NARM) mine produced 53.1 million

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Producers...

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tons during H1 2013. Arch's Black Thunder mine retains its number two status with 48.6 million tons produced during the half.

Of note:

Peabody reduced Caballo mine employee levels from 249 to 165 during Q2 2013. The mine's production will likely stay at around 1.8 million tons per quarter or 7 to 8 million tons per year. In 2012 the mine produced 16.8 million tons. Its record production occurred in 2008 when 31 million tons were produced.

Westmoreland's Rosebud mine will likely reduce H2 2013 production by 1.0 million tons due to an outage at the Colstrip plant. On July 1, 2013 PPL Montana announced Colstrip Unit No. 4 would be out of service for up to six months or more due to a major mechanical fail-

ure. The unit consumes about 3.3 million tons of Rosebud coal per year.

Combined, Alpha's Belle Ayr and Eagle Butte mines are now producing at a 43 million ton per year rate. During the fall of 2012, Alpha announced an 8.0 million ton per year production cut due to market conditions. As predicted, the cuts were spread evenly between their two operating mines, Belle Ayr and Eagle Butte. Total mine employment has dropped from 655 to 555 employees since Q1 2012.

In the Bull Mountain field, the Signal Peak Bull Mountain longwall mine in Montana continues to make strides in meeting its production goals. During Q2 2013, the mine produced 2.4 million tons and with no more longwall moves expected in 2013, is now poised to produce more than 9 million tons in 2013. □



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Powder River/Bull Mountain Production

2008 - 2013, projected

By Company/Mine

(Millions of short tons)

Company - Mine	Mine State	Joint Line Access ?	Production Year/Quarter											
			2008	2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	2012	Q1 2013	Q2 2013	Proj. Q3 2013	Proj. Q4 2013	Proj. 2013
														
Alpha														
Belle Ayr	WY	JL	28.7	24.6	6.1	5.6	6.7	5.8	24.2	5.1	4.7	6.0	6.0	21.8
Eagle Butte	WY	N	20.4	25.4	5.7	4.5	6.5	5.8	22.5	4.9	4.5	6.5	5.8	21.7
Alpha Total			49.2	49.9	11.8	10.1	13.2	11.6	46.7	9.9	9.2	12.5	11.8	43.4
Arch														
Black Thunder	WY	JL	88.6	105.0	24.2	19.2	24.9	24.8	93.1	24.3	24.3	24.9	24.8	98.3
Coal Creek	WY	JL	11.5	10.0	2.8	1.6	1.5	1.7	7.6	2.0	2.1	2.0	2.0	8.1
Arch Total			100.0	115.0	27.0	20.7	26.4	26.5	100.6	26.3	26.4	26.9	26.8	106.5
Black Hills														
Wyodak	WY	N	6.0	5.7	1.1	1.0	1.1	1.1	4.2	1.1	1.1	1.1	1.1	4.3
Black Hills Total			6.0	5.7	1.1	1.0	1.1	1.1	4.2	1.1	1.1	1.1	1.1	4.3
Cloud Peak														
Antelope	WY	JL	35.8	37.1	8.8	7.4	9.1	9.0	34.3	8.1	7.4	9.1	9.0	33.6
Cordero Rojo	WY	JL	40.0	39.5	10.0	9.0	10.2	10.0	39.2	9.2	8.4	10.2	10.0	37.8
Decker	MT	N	3.4	1.5	0.2	0.4	0.5	0.3	1.4	0.2	0.4	0.1	0.0	0.7
Jacobs Ranch	WY	JL	42.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Spring Creek	MT	N	17.9	19.1	3.8	3.7	5.1	4.6	17.2	3.5	4.5	5.0	5.0	17.9
Cloud Peak Total			139.3	97.1	22.7	20.6	24.8	24.0	92.1	21.0	20.6	24.4	24.0	90.0
FEnergy/Boich/Gunvor														
Signal Peak/Bull Mountain	MT	N	0.2	5.1	2.1	2.1	0.7	0.8	5.7	1.9	2.4	2.4	2.4	9.1
FEnergy/Boich/Gunvor Total			0.2	5.1	2.1	2.1	0.7	0.8	5.7	1.9	2.4	2.4	2.4	9.1
Kiewit														
Buckskin	WY	N	26.1	25.1	4.9	4.0	4.7	4.4	18.0	3.8	3.7	4.6	4.4	16.4
Kiewit Total			26.1	25.1	4.9	4.0	4.7	4.4	18.0	3.8	3.7	4.6	4.4	16.4
Ambre Energy														
Decker	MT	N	3.4	1.5	0.2	0.4	0.5	0.3	1.4	0.2	0.4	0.2	0.7	1.6
Ambre Total			3.4	1.5	0.2	0.4	0.5	0.3	1.4	0.2	0.4	0.2	0.7	1.6
Peabody														
Caballo	WY	JL	31.2	24.1	5.9	4.0	4.0	2.8	16.8	2.2	1.8	2.8	2.8	9.6
North Antelope-Rochelle	WY	JL	97.6	109.1	27.4	24.2	28.8	27.3	107.6	26.4	26.7	28.8	27.3	109.2
Rawhide	WY	N	18.4	15.0	4.0	3.1	4.0	3.7	14.7	3.3	3.3	4.0	3.7	14.3
Peabody Total			147.2	148.2	37.3	31.3	36.9	33.8	139.2	31.9	31.8	35.7	33.8	133.1
Western Fuels														
Dry Fork	WY	N	5.3	5.8	1.3	1.5	1.5	1.6	6.0	1.5	1.2	1.5	1.6	5.9
Western Fuels Total			5.3	5.8	1.3	1.5	1.5	1.6	6.0	1.5	1.2	1.5	1.6	5.9
Westmoreland														
Absaloka	MT	N	6.4	5.1	0.7	0.5	0.7	0.8	2.7	0.8	0.7	0.7	0.8	2.9
Rosebud	MT	N	13.1	8.8	2.3	0.9	2.1	2.7	8.0	2.7	2.0	1.5	1.5	7.7
Westmoreland Total			19.4	13.9	3.0	1.5	2.8	3.5	10.7	3.5	2.7	2.2	2.3	10.6
Joint Line PRB Total			375	349	85	71	85	81	323	77	75	84	82	318
Montana PRB Total			44	36	7	6	9	9	31	7	8	8	8	31
Wyoming PRB Total			452	426	102	85	103	98	388	92	89	102	98	381
PRB Grand Total			496	462	109	91	112	107	419	99	97	109	106	412
PRB Annualized Grand Total			496.0	426	437	364	448	427	397	388	436	426	426	426
Bull Mountain Total			0.2	5.1	2.1	2.1	0.7	0.8	5.7	1.9	2.4	2.4	2.4	9.1
PRB / Bull Mountain Grand Total			496	467	112	93	113	108	425	101	99	112	109	421

Source - MSHA, Hanou Energy Consulting, LLC

On another note, Hanou Energy and Burnham Coal plan to publish an update of their strategic study on the Powder River Basin: Powder River Basin Coal Supply, Demand and Price Trends 2013–2032. The initial study came out in August of 2012; the update will come out in late August 2013. Hanou Energy Consulting, LLC is owned and operated by John Hanou. Hanou can be reached by cell phone at 410-279-3818 or via email jthanou@hanouenergy.com. His website is www.hanouenergy.com. Burnham can be reached at 303-517-7826 or via email at bob@burnhamcoal.com.

THE MARKETS...

Utility stockpiles going down is going to be good news, just not so much right now

Like beauty, good news about stockpiles is in the eye of the beholder.

Last week the Energy Information Administration reported that utility stockpiles in the U.S. dropped below the 5-year monthly average in April for the first time in close to three years. After close to three years of stories about how high stockpiles have been that's great news, right?

It probably will be. It just hasn't been so far.

A source in the Powder River Basin said utilities have been burning more coal since natural gas prices started their climb just over a year ago, but a lot of that coal has been coming from those historically high stockpiles. The EIA numbers are good news, but it is more likely to be better news in 2014 than before the holidays.

"You go back to the first quarter and the amount of coal going into the market was dropping," the source said. "That's why the stockpiles have been going down. Power plants have been burning off their stocks and they've been taking, in a lot of cases, tons that were deferred last year or even the year before."

As far as the PRB is concerned the situation is getting better, but prices have remained more or less flat while the domestic coal burn has increased. With coal again counting for slightly over 40 percent of U.S. power generation and stockpiles still being burned off demand is going to rebound.

The source said the question isn't if, but when.

"Summer has been sort of blah so far," the source said.

"We haven't had enough heat to cause the kind of runs on coal we've seen in the past, so that pushes the recovery back a bit."

Natgas-to-coal switching at utilities that burn mostly PRB coal has just about gone full circle, the source said. Most of the utilities that turned to gas have turned back to coal so the PRB producers will go into 2014 just about even.

"Production and costs (in the PRB) have been reined in pretty well over the past 18 months. I think next year when you see prices start to react to an improving market you're going to see production increase a bit. What I don't think you'll see is anyone jumping the gun on production."

While some look at lower production numbers in the PRB and see problems, the source said it's actually a sign that producers have a good feel for the market. Stockpiles are still shedding tons so any company in the PRB that tries to jump the gun is just going to blow a hole in potential 2014 pricing.

"Is it normal? No, but normal could be on the horizon," the source said. "It could be a new normal, but it will be better than what we've seen."

The fly in the ointment would be if natural gas prices suddenly took an unexpected nose dive and gas-to-coal switching became coal-to-gas switching again.

"I don't see it because the gas companies don't want it to happen," the source said. "Gas at two dollars doesn't do anything for them." □



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Cutting costs translates to improving productivity at Peabody Energy's U.S. operations

When it comes to cost cutting at its U.S. operations, it's all about productivity improvements for Peabody Energy.

CEO Greg Boyce and his highly skilled management team were able to realize a reduction in costs in both the company's Midwestern and Western coal segments during the second quarter despite lower volumes.

Operating cost per ton for the Midwestern segment during the second quarter this year was \$34.55 compared to \$35.80 in 2012. For the first half of 2013, cost in the region was \$34.33, bettering the 2012 number for the same period (\$35.61).

In the Western region, cost per ton for the 2013 second quarter fell to \$12.92 compared to \$13.58 in the second quarter of 2012. For the first half of 2013, Peabody's cost per ton in the region totaled \$12.84, declining from the \$13.16 cost posted in the first half of 2012.

"It (cost cutting) relates to what we are doing in the context of our operating plans," Boyce said. "In the Powder River Basin, we shifted more tonnage to North Antelope Rochelle, where we have a higher margin and continue to add volumes at a lower cost structure. We continue to look at shifting more tons from shovel at surface operations to dragline operations, which is inherently lower cost. It's just day to day looking at every dollar spent at those operations."

Better use of mining equipment as part of maintenance programs has also been crucial to the cost-cutting effort for Peabody.

"We have spent a lot of time at maintenance programs

where we are running condition-based programs rather than time-based," Boyce said. "What does that mean? It means you don't replace an engine or drive axle or other components of machinery until you have done analysis. You replace them when they need to be and not based on time. All of that has taken cost out of our operating platform."

"We have also spent money in the past on technology in terms of equipment monitoring with dispatching of trucks and equipment at surface operations and even underground with the operation of longwalls and miners. You add all of that up and the team is now in a mode of every day looking for ways to improve productivity and reduce costs."

The strip ratio at various mines also plays a role.

"We are maintaining the strip ratios that are required for the operations for the long term," Boyce said. "What we are watching very closely is not getting ahead too far at any particular operation. We make sure it's very tight, so that has helped minimize costs."

"At the large surface operations in the U.S. the best thing we can do is reduce variability in the operations because it allows us to manage cost structure and get the best productivity and capital efficiency out of our equipment. Those are things the team looks for."

Peabody CFO Mike Crews added: "We are making an effort not to make short-term decisions on cost that could have long-term implications. It's a day-in, day-out fundamental approach to taking costs out of it." □

Low costs mean producers can handle lower than expected Illinois Basin prices for now

Despite prices being stuck in the mud – the mud being the low \$40s per ton, at best – the Illinois Basin is still gearing up for big things.

A source said if you had asked him in December where pricing for generic Illinois Basin coal would have been at the start of the third quarter he would have added five or six dollars to the price tag at this point. But it's a bad news/good news scenario because the basin's production costs are so low money is still being made.

"I think, and this is speaking generally, that producers are showing we can compete with natural gas and the PRB because of our low cost per ton," the source said. "The market has been sluggish when it comes to pricing, but that's likely to be worked out over time."

"And I don't think we're talking about that much time."

The source said the what's-the-EPA-going-to-do hurdle

is also taking a bite out of domestic demand. With the courts still working its way through regulations utilities are still holding back on long-range planning that would add a dollar to two to the price per ton.

"Future demand is always fluid, but right now, in some cases, you can't lay out a plan for the next three years or so because you're unsure of the regulations," he said. "That clarity is coming. I think what we're seeing right now are the low side of burn estimates for '14 and '15 and beyond."

The source believes that what could be coming for the Illinois Basin is a perfect storm of new production kicking in, export demand picking back up and domestic demand finding its level for the next few years. That's when prices are going to climb.

"I would think we'll be over \$45 a ton by this time next year. It's going to be incremental," he said. □

Norfolk Southern talks “fixed variable pricing” during second quarter conference call

Though the extent to which it may be implemented and the impact it might have on eastern railroads and their coal customers appears uncertain, the subject of fixed variable pricing remains a hot topic of late.

After CSX broached the topic briefly in a recent second-quarter earnings call, Norfolk Southern management also offered its thoughts on fixed variable pricing and its potential future in the business.

“We have been having ongoing discussions with some of our utility clients regarding that pricing methodology on a quarterly basis,” Norfolk Southern Chief Marketing Officer Donald Seale said. “We will continue to have those discussions and reviews. And where it makes sense for us in terms of profitability and margins and being competitive, we will certainly continue to have that dialogue and take definitive action accordingly.”

The discussion turned to whether a marginal pricing structure would influence dispatch curves and the competitiveness of various plants.

“That is very uncertain to us at this point,” Seale said.

No real change in coal stockpiles

Not unlike its competitor, Norfolk Southern is reporting a “story of two different market segments” when addressing the current domestic utility coal inventory situation in the East.

“In the North, we’re seeing stockpiles normalize,” Seale said. “In the South, we are still seeing stockpiles above normal. We are seeing heavier gas competition in the South as well. But with the summer burn that we are seeing, we are seeing stockpiles begin to come down in the South, and they are at the normal level in the North.” □

Production strong, Walter Energy offers good news as met market provides challenges

Walter Energy completed some important work by negotiating an amended credit facility. Production is hitting on all cylinders. Now the coking coal giant needs some help from the coal market.

Walter improved its financial flexibility with the amended credit facility. “We believe the amendment removes a key overhang for the stock,” Evan Kurtz, coal industry analyst for Morgan Stanley, wrote. Kurtz added that the development has been “largely anticipated over the past week.”

In exchange for the amendment, and as an acknowledgement of current met market conditions, Walter reduced its dividend to 1 cent/share from 12.5/cents share and is paying a \$17 million consent fee, Kurtz noted. The change in dividend also had been expected.

“Resolution of the covenant overhang moves the investment debate to the outlook for the met coal market as well as execution at Walter,” Kurtz wrote. Good news: “Strong production volume and costs show improving operational execution.”

“We significantly reduced costs in the second quarter led by strong performance from our Alabama premium hard coking coal mines,” Walt Scheller, Walter CEO, said. “I am pleased with our operational progress, however our financial results for the quarter still reflect the significant ongoing weakness in the global met coal market.”

“While the short-term outlook for global met coal pricing remains depressed, we continue to maintain our focus on operating safely and efficiently, lowering costs

and improving our financial performance.”

Second quarter met production should total approximately 2.9 million metric tonnes, up approximately 7 percent compared with Q1. Higher production in the quarter was driven by an increase of 400,000 tonnes from the company’s low-vol and mid-vol mines in Alabama, which is very good news.

Met coal cash cost of production should have declined by more than 10 percent, or over \$10.00/tonne, compared with Q1, more good news. Production cost in the low-vol and mid-vol mines in Alabama declined 14 percent, while per ton met cash costs of production in the Canadian operations also declined despite lower production volumes, a nice development.

Walter expects to report Q2 met sales of approximately 2.4 tonnes, a decrease from Q1 of approximately 300,000 tonnes. That was primarily due to late arrival of vessels, so the tonnes could get soaked up early this quarter.

The company expects met coal cash cost of sales to increase by approximately 2 percent in Q2 as a result of a charge to restate ending inventory at the lower of cost or market (LCM) that reflects a projected decline in Q3 met coal and low-vol PCI prices. Excluding the LCM charge to ending inventory, met coal cash cost of sales per tonne would be slightly improved versus Q1.

Kurtz noted that sales below production points to possible marketing issues. Certainly the situation isn’t ideal,

Continued on page 7

Production strong...

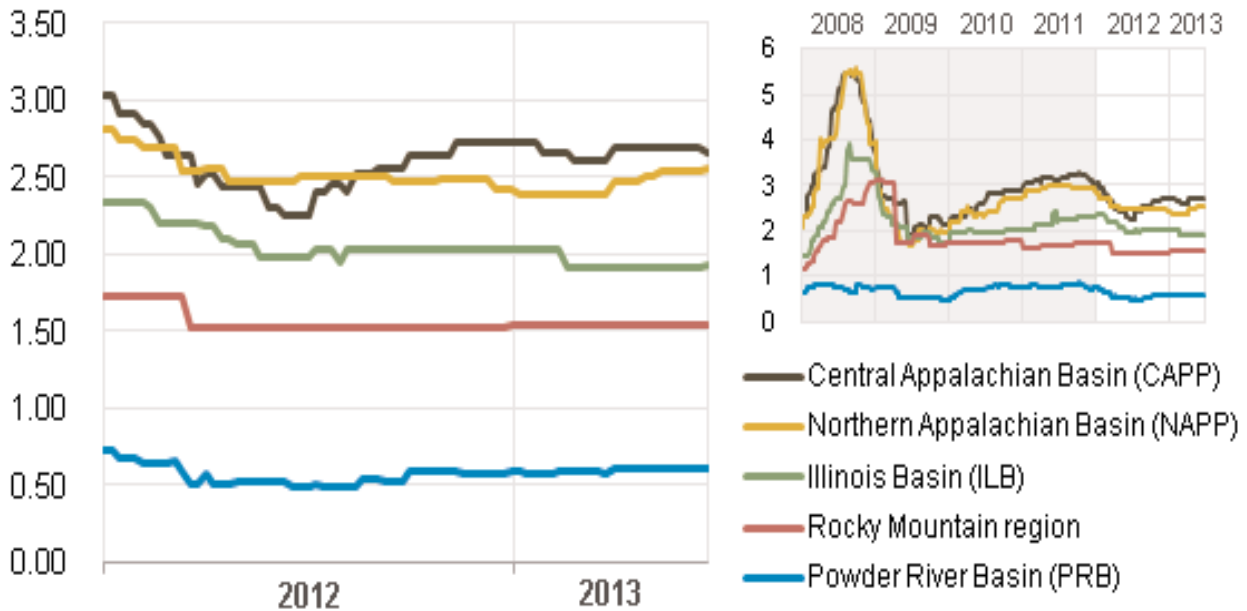
Continued from page 6

but there shouldn't be an issue moving the low-vol and mid-vol Alabama coal, which buyers see as gold. The question is one of price, a result of heavy competition

from Australia, which is tossing out coal like confetti.

On balance, Walter offered investors a lot to like. It's up to the coal market to complete a trifecta. □

U.S. weekly spot steam coal prices by basin
\$/MMBtu



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CONSOL Energy is big and could be even bigger news as the third quarter rolls on

"A smile relieves a heart that grieves; remember what I said. I'm not waiting on a lady, I'm just waiting on a friend."

Jagger & Richards

We might also have turned to ol' Elmore James' Shake Your Money Maker, but it's a little too blue around here for the blues. Had we tapped Elmore, we'd have changed the song title to Shake Your News Maker.

What we'd all like by now, I'm sure, rather than for me to continue to bloviate, is for someone to make some real news, hot news. And I am just waiting for a friend.

Pittsburgh's a friendly city, black and gold everywhere, the beautiful rivers, great pirogues. And I have lots of friends around the Steel City. Any of you want to make some news.

It seems CONSOL Energy might. The company's second quarter earnings call was fascinating, I thought. There are a lot of moving pieces – more chess to be played – but CONSOL could be a substantial newsmaker as early as the third quarter.

You like big coal supply deals? Substantial asset sales? Maybe even the restructuring of a company? It's all in play. Would CONSOL separate its coal and natural gas businesses? It might, though I doubt that would happen as early as this quarter.

Still, Brett Harvey is in full Texas Hold 'Em mode, and it's not clear when and where he might play his cards. I am advocating, Brett, that you get a big Stetson and a pair of Lucchese boots – snake skins. You'd look great at the poker table.

During the call with investors and analysts, Brett didn't preclude the possibility of separating CONSOL's two businesses. "That's one way of doing it," he said of a potential restructuring. He also said "everything's on the table" and that the company is "serious" about restructuring if such a strategy is appropriate.

Why? CONSOL wants to make sure the value of its business is fully appreciated. "The structure issue is becoming more and more serious because the gap between the underlying value of our company and the current enterprise value has not narrowed, in our opinion," Brett said.

The CONSOL CEO did take one thing off the table. "We have no interest in acquiring competitor companies in the coal business," he said. Bolt-on opportunities could be another story.

Here's another thing, though, CONSOL hasn't taken off the table – a possible sale of its barges and ocean terminal. Sales could be considered as long as the company has "access" to the assets, Brett said, though he didn't do the

JIM THOMPSON'S MARKET COMMENTARY

ol' Muhammed Ali shuffle, presumably, as the rhyme might suggest.

A sale of CNX Terminal could have some interesting ramifications. CON-

SOL would want to preserve access. Presumably a buyer would want some type of term throughput commitment.

If CONSOL were to sell CNX, I wonder whether such a move would increase its incentive to bring Illinois Basin coal up to Baltimore for blending with Pittsburgh seam coal. The Illinois Basin coal could fulfill part of any volume commitment, freeing CONSOL to continue to deploy its Pitt seam coal in a purely strategic manner.

It might be a moot point. CONSOL is set to export maybe 10 million tons of coal from Baltimore in 2013. Exports are likely to continue at relatively high rates. Still, the potential for Illinois Basin/Pitt seam blends is intriguing, and a terminal sale would provide one more argument in their favor.

Of course, CONSOL hasn't yet said whether it will sell the terminal. Brett still has that card up his sleeve.

CONSOL did show a few cards on the coal marketing side. CFO David Khani tipped the possibility of some substantial supply agreements getting done this quarter. Market conditions are favorable.

Khani noted that PJM inventory levels have slipped below 40 days, some 13 days off their 5-year average. In the meantime, CONSOL's Pitt seam inventories have melted and could wind up like the wicked witch in Oz if summer weather extends through September.

Even with 10 longwalls in play, CONSOL'S Pitt seam mine inventories were a modest 250,000 tons at the end of the second quarter. Those mines have the capacity to produce 50 million tons/year or thereabouts.

David said – "By the time we get to this call for the next quarter, we think we'll have several substantial thermal coal deals put to bed, and the pricing we're seeing is what we consider to be good pricing for next year."

Interest from buyers appears to have accelerated in the past month. Concern surrounds reliability and the acquisition of high-Btu coal. That ought to play to CONSOL's strength.

David said multiyear deals are in play.

CONSOL also had some interesting things to say about the met business, beginning with its estimate that 15-20 million tons of coal still need to come out of the global marketplace to balance supply/demand.

In a sign of these complicated met market times, David said CONSOL has enjoyed good interest in its high-vol Pitt seam coal. There is interest from Brazil and from domestic U.S. buyers. CONSOL is also pursuing high-vol

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Quality	Hill Price	Hill Index	Last Trades
NYMEX Current Quarter, Plus One	\$55.80	232.99	07/24/13
NYMEX Current Quarter, Plus Two	\$57.00	238.00	07/25/13
NYMEX Next Calendar Year	\$57.00	238.00	07/25/13
PRB 8,800 Current Quarter, Plus One	\$10.60	237.67	07/25/13
PRB 8,800 Current Quarter, Plus Two	\$11.05	247.76	07/23/13
PRB 8,800 Next Calendar Year	\$12.10	271.30	07/25/13
PRB 8,400 Current Quarter, Plus One	\$0.00	0.00	09/05/12
PRB 8,400 Current Quarter, Plus Two	\$11.75	339.60	07/15/13
PRB 8,400 Next Calendar Year	\$11.75	339.60	07/15/13
CSX <1% sulfur Current Quarter, Plus One	\$59.00	226.92	07/23/13
CSX <1% sulfur Current Quarter, Plus Two	\$60.00	230.77	07/25/13
CSX <1% sulfur Next Calendar Year	\$60.00	230.77	07/25/13
CSX compliance Current Quarter, Plus One	\$0.00	0.00	03/09/11
CSX compliance Next Calendar Year	\$0.00	0.00	10/15/07
NS <1% sulfur Current Quarter, Plus One	\$57.75	222.12	06/21/13
NS <1% sulfur Next Calendar Year	\$0.00	0.00	12/20/12
NS compliance Current Quarter, Plus One	\$0.00	0.00	12/09/10
NS compliance Next Calendar Year	\$0.00	0.00	12/19/11

All prices are based exclusively on latest actual trades, and are indexed against market as of 12/28/99, when NYMEX-spec coal had been traded most recently at \$23.95/ton, 8,800 Btu/lb. Powder River Basin coal at \$4.46/ton and 8,400 Btu/lb. PRB coal at \$3.46/ton. The eastern rail index is measured against an arbitrary price of \$26.00/ton. "Hill Index" reflects weighted average of prices recorded on most recent trading day. On days when no trades occur, published index remains at previous level. "Mid-market" reflects mid-point of current bid/ask values.

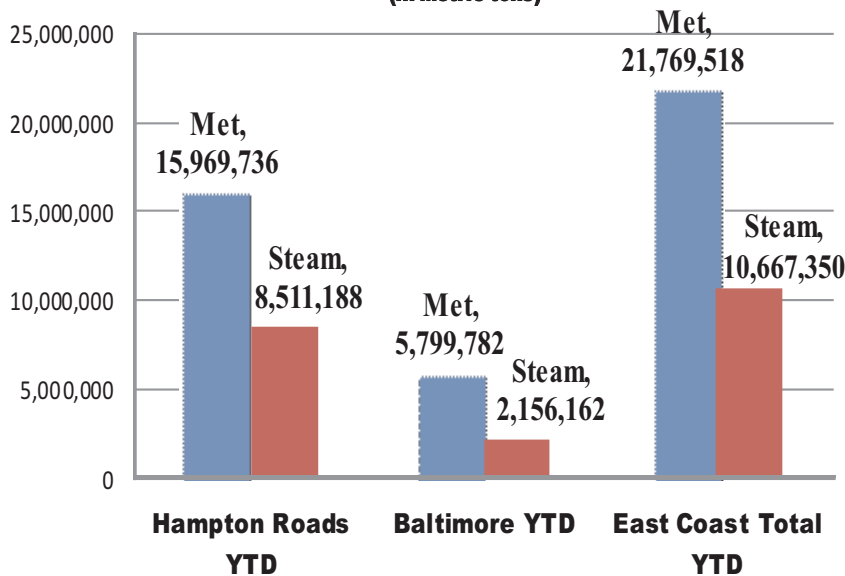


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Energy Publishing, Inc.

Hampton Roads and Baltimore June 2013 Breakdown by Coal Type

(in Metric tons)



Data provided courtesy of T. Parker Host

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UTILITY PRICE MARKERS...

Region	Btu/lb#'s	SO2/MMBtu	\$/ton	Trans
Illinois Basin	11,800	4.8	\$43.00	
	11,000	3.5	\$39.00	
	10,500	4.5	\$35.00	
Central App.	12,500	1.2	\$62.00	CSX
	12,500	1.2	\$63.00	NS
	12,500	1.6	\$58.00	CSX
	12,500	1.6	\$59.00	NS
	12,000	2.0	\$52.00	CSX
	12,000	1.2	\$63.00	BS
	12,000	1.2	\$61.00	KAN
	12,000	1.6	\$57.00	BS
	12,000	1.6	\$55.00	KAN
	11,500	1.6	\$50.00	BS
	11,500	1.6	\$48.00	KAN
Northern App.	13,000	3.4	\$65.00	Rail
	13,000	4.0	\$61.00	Rail
	13,000	3.6	\$56.00	Barge
	12,500	7.0	\$47.00	Barge
Western	8,400	0.8	\$9.75	
	8,800	0.8	\$10.50	
	8,800	0.55	\$11.50	
	11,500	1.2	\$35.00	Utah
	11,000	1.2	\$33.00	Colorado
OTC PRB	8,800		\$10.75	Next Quarter
	8,400		\$10.00	Next Quarter
	8,800		\$12.00	Next Year
	8,400		\$11.25	Next Year
Eastern Rail OTC	12,500	Comp	\$61.50 CSX	Next Quarter
	12,500	Comp	\$66.00 CSX	Next Year
	12,500	Comp	\$62.50 NS	Next Quarter
	12,500	Comp	\$67.00 NS	Next Year
	12,500	1.6	\$57.50 CSX	Next Quarter
	12,500	1.6	\$62.00 CSX	Next Year
	12,500	1.6	\$58.50 NS	Next Quarter
	12,500	1.6	\$63.00 NS	Next Year
OTC NYMEX			\$55.00	Next Quarter
			\$59.00	Next Year

CONSOL Energy...

Continued from page 8
business in Korea.

As for CONSOL's Buchanan low-vol coal, assuming current projections of production there are about 400,000 tons open to the 2013 spot market. The company is "pursuing sales in China and Europe, and additional sales to South America," David said.

CONSOL could produce more Buchanan tons than projected "if the market is there," David said.

A couple of notes: CONSOL appears to have made the strategic decision to pursue new markets for its met coal while international price points are low. That makes sense. If pricing must take a hit from what the company would prefer, at least qualify the coal in as many markets as possible. That should pay future dividends.

Beyond that, CONSOL's continued ability to place Pitt seam coal in international high-vol and PCI markets ought to give thermal coal buyers, whether in the U.S. or overseas, pause. During a meager met market, such as we have today, buyers pursue the coal to lower their coke-making costs. During a hot met market, they are quite likely to need the coal.

I would assume that CONSOL will continue to grow its met business for some time to come.

Of course, assumptions are dangerous. Brett just tilted the brim of his Stetson down to cover his eyes. It's a waste of time to try to read him.

Still, I'm going to bribe the server to let me deliver his next drink. I'm just waiting on a friend.

"In the land of milk and honey you must put them on the table. You go back, Jack, do it again – wheel turnin' 'round and 'round. You go back, Jack, do it again."

Walter Becker & Donald Fagen

"Pull up a chair, kiddies, and listen to grandpa. There was a time, back before all those snotty-nosed young'uns started prowlin' around my dad-blamed yard, trampin' the grass, when electric utilities usually asked for free volume options – plus or minus 100,000 tons here, plus or minus 200,000 tons there. Got 'em, too.

"Then some smart, fancy pants city slicker trader dude – his shoes all shined and his pants well creased, never heard of overalls or real work – come to town and started spoutin' some foolishness about 'the value of optionality,' or some such. Dang Ivy Leaguer.

"He went to makin' trouble, and the next thing you know ain't nobody getting' their optional tons, 'less they paid for it – good 'baccar money too.

"We all thought it was a fad, but I reckon it war'nt – or well, I did reckon that.

"My old pal Doug Blackburn – got him a spread out in Richmond, plays some mean checkers, somethin' you kiddies never played, what with your high-toned video

games – reminded me not long ago of a song we listened to when we's young men. It was ol' Merle Haggard. You know him – guy the radio stations play but won't 'cause of all the pretty boy singers out there.

"Anyhow kiddies, the song went like this – 'Are we rollin' downhill like a snowball headed for hell – with no kind of chance for the flag or the Liberty Bell? I wish a Ford or a Chevy would still last 10 years like they should. Is the best of the free life behind us now, and are the good times really over for good?'

"It's just somethin' in my eyes, kiddies. Ol' Merle gets to me, though."

Flexibility

Maybe the best of the free life isn't behind us, gramps. Maybe this is just a tough patch. But here's a sign of the times – electric utilities are asking for those swing tons again, and it appears they're getting them.

Southern Company, in its recent RFP, asked for up to 20 percent "flexibility/option tons," in scheduled shipments on a quarterly or semi-annual basis. The idea seemed a bit out of reach – Rob and them asking for what they'd like in hopes of getting some of it. Heck, the other day a coal producer acknowledged that Southern would get some of it.

Given what I'm hearing while hitting the speed dial, Southern might get more than I would have anticipated. Word on the street is that TVA, for one, is successfully negotiating agreements that have substantial tonnage flexibility. In fact, one source said TVA isn't "doing deals anymore" that don't offer it some flex tons.

In some cases, the option might encompass as little as 10 percent of the overall volume, but in other cases, well – one source said TVA has gotten as much as 100 percent, though likely in a contract that offered some give and take in other areas.

Utility buyers are putting serious value on flexibility because they don't feel as if they have much choice. "It's kind of what you have to have now to manage your portfolio," a source said. "It's just reality in a shale gas world."

Contracts are being styled to requirements rather than to fixed volume. And coal suppliers aren't alone in learning to be more flexible.

"It seems to me that both producers and transporters have seen the light," a source said. Electric utilities are "not the anchor tenant anymore."

Utilities – at least some utilities – "are getting a lot of flexibility," a source said – and some of that flexibility is being provided by railroads, though not by all railroads, at this point.

Outcomes on the coal side vary as well. A source said broad flexibility is available from the Illinois Basin but

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CONSOL Energy...

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not from the Powder River Basin.

The point remains the same, though. In an environment in which buyers are serious about being able to switch between fuels when prices dictate they should, and in one in which coal suppliers must be extremely competitive, the rules have changed.

Back, Jack, do it again.

More about TVA

TVA appears to have joined Southern Company in declaring itself a two-basin utility, though like the folks in Birmingham, the guys in Chattanooga are advancing the strategy a step at a time. It shouldn't be a surprise that – also like Southern Company – TVA intends those two basins to be the Illinois Basin and the PRB.

Sources said TVA generating stations have been challenged to stretch their imaginations, to be flexible themselves, and to find ways to burn the least expensive coal available. The Allen station, for example, has already moved to 100 percent PRB coal usage.

Plant managers everywhere are naturally inclined to want to burn the coal they feel makes their plant hum the smoothest. But the rules of the game have changed for them just as they have for coal producers and buyers. Now they want to make sure the plant hums.

“When (generating stations) are not operating because gas is cheaper than coal, they start looking for less expensive coal,” a source said.

Makes sense.

“Now kiddies, bring ol’ grandpa his blanket and get outside in the fresh air. It’s time for my nap.”

“They say flowers bloom in spring – red and golden, blue and pink. They say seasons turn in time – theirs are changing, why won’t mine?”

Avett Brothers

We didn't get a chance to talk just a whole lot about the implications of Southern Company's recent RFP and what is to follow. By the time all is said and done, look for maybe 6-7 million tons/year of Illinois Basin coal to have been put to bed, in a very brief time span, by Southeastern utilities for 2014 and beyond.

The Southern Company solicitation will be followed by RFPs from Duke Energy and Orlando Municipal Utilities, at least. TVA has already cast its line. Decisions will be made over the next two to four months that will shape the Southeastern market for years to come.

“This is where it's all going to change,” a source said. “This is it. (Utilities) are redesigning what their portfolios look like.”

Of course, none of this is a surprise. But neither is Christmas, and folks still look for Santa Claus. That's the Illinois Basin guys. Central Appalachian producers will

be looking for good fits, where they exist, and deciding to cut tons where there aren't good fits.

The shift to the Midwest is an ongoing process, of course. Some moves have already been made. Some won't be made for another year or two. But this is the crucial period.

The implications extend beyond the U.S. As mentioned here before, by the time these contracts are done the seaborne market is going to have significantly less coal from which to choose. Whether because Illinois Basin coal that had been exported goes instead to the domestic side, or because high-cost CAPP coal gets rationalized, the pickings get much leaner for international buyers.

One knowledgeable source said international interests should look to see how the second half of 2013 unfolds, from a standpoint of export volume. The tons that get moved to the export side might rather neatly reflect the volume that will be generally available on an ongoing basis.

“There is no incremental business going into Europe,” the source said. “Whatever was sold into Europe isn't changing. Whatever was sold into Europe might be it.”

Maybe that number looks like 10 million annual tons. That's probably about right.

Don't infer from that a declarative statement about future export volumes. Producers will move incremental coal into the best available market, whether domestic or export. But 10 million might be as much as international buyers can count on.

Consider the 6-7 million tons of annual coal likely to be contracted by the aforementioned utilities over the next few months. The utilities involved certainly aren't putting 90 percent of their projected requirements under contract. Maybe the figure is closer to 80 percent.

As Southern fills its total Illinois Basin contract requirements during the next year or two, it's not unreasonable to think it will have 4 million tons worth of spot opportunity in a particularly good year. Duke might have 3-3.5 million tons of spot flexibility.

Domestic utilities will move to protect themselves from being too exposed to the spot market. Southern already proved that by asking in its recent RFP for significant volume flexibility.

“I'm not saying they're going to get it, but they're going to get some,” a source said.

Other utilities will attempt to obtain as much flexibility as possible. Time will tell how much flex producers will be willing to provide.

Still, Duke and Southern, while both have a massive appetite, offer just a glimpse of how much spot coal – and perhaps flex coal – could be required by domestic players in a strong burn environment. Exporters would have to

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compete for that coal, and it is very difficult to compete with a hungry domestic buyer.

Of course, domestic utilities will have smaller appetites some years, so don't write off Illinois Basin coal as a prolific export player. This is just to point out that the free run exporters have had is coming to a close.

Keep in mind that virtually zero U.S. thermal coal mines are designed to thrive on exports. Alliance Coal, for one, has proven recently how compelling and profitable term relationships with domestic utilities can be.

"Alliance is 30 million tons of a very disciplined coal company that made its hay in the domestic market and will decide when it goes to export and when it doesn't," a source said.

Other producers will take a similar tack. The export market is an outlet, not a requirement. But it could be quite a valuable outlet. Low-cost Illinois Basin coal can compete on the export side. If there is sufficient opportunity, more volume can be brought on board. But it won't be brought on board to compete solely for spot business, whether domestic or international.

In any case, there will be several fascinating stories to watch as the new-look coal market takes shape. Will the Eastern railroads – CSX especially – compete for a share of the Illinois Basin export pie by offering aggressive rates to move coal to the East Coast? The bet here is yes.

Will Illinois Basin coal be employed in a big way in blends with NAPP and CAPP coal being exported from Baltimore and Hampton Roads? That will depend on the Eastern railroads – producers have sufficient incentive.

"It's not to save your coal," a source said. "It's to optimize." Where NAPP coal is concerned, "the Btus over-comply with anything the international market needs." As for CAPP coal, sulfur below 1% "is just overkill."

So Illinois Basin producers will be picking and choosing their markets – term domestic business first, favorable incremental opportunities next. And don't be surprised to find the Illinois Basin also contributing to better overall returns for some NAPP and CAPP producers.

A lot of folks probably look at the market of the past couple of years as an Avett Brothers kind of thing – Winter in My Heart. "The air in there is frigid cold. I don't know what the reasons are. The calendar says August 1. But it's still winter in my heart."

But seasons do turn in time. There might not be relief yet from low prices and myriad challenges, but we are about to enter an extremely interesting and monumentally important season.

It's appears as if the enviro movement has chosen haze as its weapon of choice to bludgeon coal plants in the

West. Certainly the Sierra Club's blood lust has hardly been sated by recent announcements of plant shut-downs in the Midwest and East.

The greens didn't spend much time celebrating news that a 3-judge panel of the federal 10th Circuit Court of Appeals had, in a split decision, offered up Oklahoma Gas & Electric's Pawnee and Muskogee plants to the EPA's regional haze regulations -- an offering of more than \$1 billion in mitigation costs over a 5-year period, according to the utility.

The EPA contends the cost will be much less.

Now the Sierras have PacifiCorp's Wyoming coal plants -- Johnston, Bridger, Naughton and Wyodak -- in their sights.

The appeals court "has strongly affirmed EPA's authority to ensure that states provide strong clean up rules for power plants. It's time for PacifiCorp and its owner, Warren Buffett, to stop attacking the EPA and polluting national parks and start transitioning from dirty coal plants to affordable, reliable clean energy," Bill Corcoran, western director of the Sierra Club's Beyond Coal campaign, said in a prepared statement.

"The ruling comes at a bad time for PacifiCorp, which has recently attacked the EPA over its proposed rule to reduce haze pollution at four of its coal plants in Wyoming," the Sierra Club said. "The plants pollute Grand Teton, Badlands, and Yellowstone national parks.

The greens noted that in an amicus filing in the OG&E case "PacifiCorp drew close parallels between Wyoming and Oklahoma, arguing that only a state can determine the level of pollution controls, known technically as the Best Available Retrofit Technology, or BART.

"Citing the Clean Air Act and its legislative history, the 10th Circuit concluded that 'the EPA may reject BART determinations that do not comply with the guidelines.' The court squarely rejected arguments made by PacifiCorp and other coal industry groups that EPA lacked the authority to ensure that state programs meet federal requirements."

States have been peeled rapidly of much any say on coal matters.

The EPA's regional haze plan for Oklahoma gives OG&E the option to install new scrubber technology to limit emissions or retire the coal plants. Clearly the Sierra Club has a similar vision for PacifiCorp. Don't assume it vision ends anywhere near there.

The Sierra Club spends reams of copy scolding utilities to move to "cleaner" sources of electricity generation. It's just so much wind -- or hot air.

In addition to Beyond Coal and Beyond Oil, the Sierra Club has a Beyond Natural Gas campaign, which is head-

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ed by the warning -- "Dirty, Dangerous and Run Amock."

Here's what else the Sierras have to say on the subject -
- "Natural gas drillers exploit government loopholes, ignore decades-old environmental protections, and disregard the health of entire communities.

"Fracking,' a violent process that dislodges gas deposits from shale rock formations, is known to contaminate drinking water, pollute the air, and cause earthquakes. If drillers can't extract natural gas without destroying landscapes and endangering the health of families, then we should not drill for natural gas."

Clearly coal is the Sierra Club's primary target now. Natgas will replace coal at some point. Civilization next? Maybe only the part of it that requires electricity.

For now, OG&E and others are left to lament a decision the minority judge on the panel that ruled for the Sierras said, even according to the EPA, will "result in no appreciable change in visibility." And -- "Moreover, there is no evidence this investment will have any effect whatsoever on air quality."

Ouch. But what's a billion dollars, give or take?

OG&E can ask for the case to be heard by the court's full 5-judge panel. The two judges that ruled against it conceded that the case was close.

We shall see what unfolds, but grab your wallets, Wyoming electricity users. It appears as if you might be joining Sooners in paying large bills for a hazy situation.

Don't fret. We might all be joining you.

SCANA RFP

An RFP late last week from South Carolina Electric & Gas for up to 250,000 tons annually of CSX near-compliance coal is a reminder that utilities still need a Central Appalachia option.

SCE&G is in the market for a 2-year supply of coal for its McMeekin generating station, deliveries of which would begin in January 2014.

In addition to CSX coal, rail-to-truck options via Norfolk Southern will be considered.


Bids are due August 2 and must be valid for 30 days after receipt. If you have any questions or require additional information, please contact Michael Shinn at 803-217-9193 or Paul Weiland at 803-217-9455. The former prefers to be called Smitty, the latter Bjorn.

Specs under the RFP are 12,500 Btu/lb., 12% ash, 6% moisture, 31-38% vols, 2,650 degrees ash fusion temperature and 45-60 grind, sized 2x0.

Those are the coal specs, not those of Smitty and Bjorn.

But the big one is sulfur -- firm at 1.36 lbs.


SO2/MMBtu. □



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LEONIE JACKSON

NAPP market should keep on keeping on during idling of Alpha's Cumberland mine

Unless unexpected further issues arise at Alpha Natural Resources' Cumberland mine to keep the operation down for a considerably longer time than originally anticipated, the impact on the Northern Appalachian coal market should remain minimal.

A number of Coal & Energy sources commenting on the subject have all said they don't look for a super-tight supply situation to emerge as a result, nor should pricing rise substantially, if any, as a result of the down time. Demand for the Cumberland steam coal has likely cooled off somewhat of late, and plenty of supply remains in the region, according to yet another source weighing in on the subject.

Of course, sustained summer heat and a long outage at Cumberland could alter things, but...

"I would not disagree (that the market effect will be small) with the others," the source said. "I don't think it will be much. A lot depends on the weather. If the burn stays up, the inventories some of these utilities had will probably suffer, and then they could be looking for coal. But I think there are operations out there with coal that would be happy to cover for them.

"It depends on how long it goes. I think they are only talking a few weeks. If it went for two months or so, who knows? They produce about six or seven million tons, so that's probably half a million tons a month, right? If they are closed for a longer period of time and it stays hot, I think it could have an impact. But if it's only a few weeks, I don't think so. It's the nature of the

business.

"It's tonnage, but again I think there are producers that would be happy to do that. I think, unless another operation goes down, there is production available to cover things. I am sure there are inventories in a lot of places."

The announced shutdowns of various coal-fired plants in the region could at some point free up some supply, easing the potential tightness of the NAPP market further.

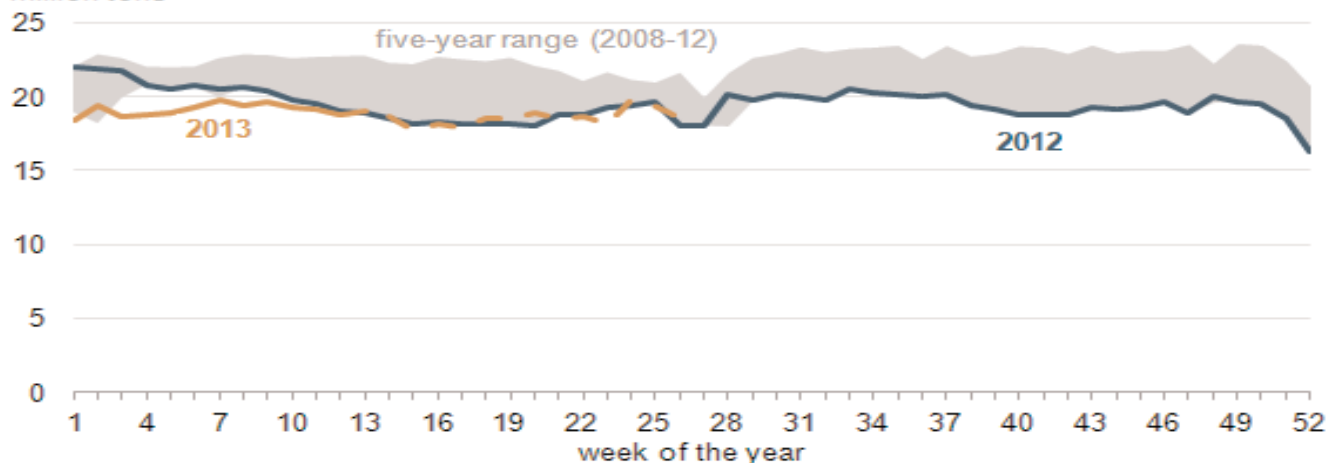
"They (First Energy) are closing Mitchell and Hatfield," the source said. "That means they are probably looking to reduce their take over time, so I just don't see it (a NAPP coal shortage or increased pricing)."

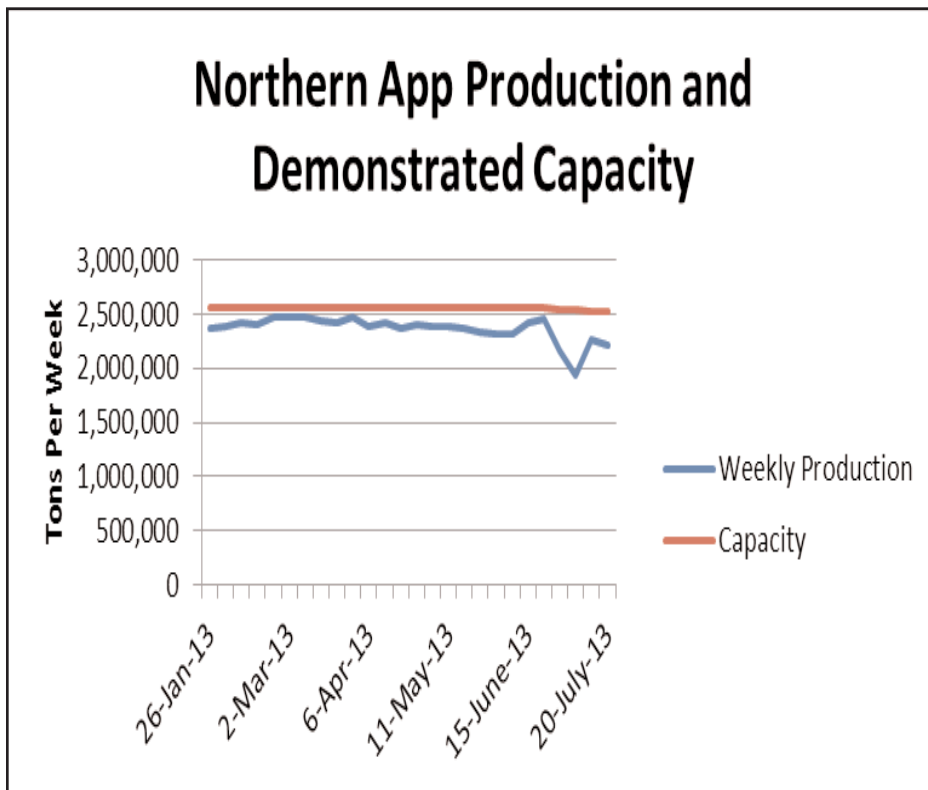
Considering that the export market for NAPP and other coals has diminished of late, the loss of a small quantity of Cumberland coal isn't such bad news to others trying to make a living in the basin.

"The export market is not soaking up much of it right now because the prices are so low," the source said. "It's staying at home, so if anything, I think all the other suppliers are saying it is a good thing. They are saying 'hey, another mine is shut down.'"

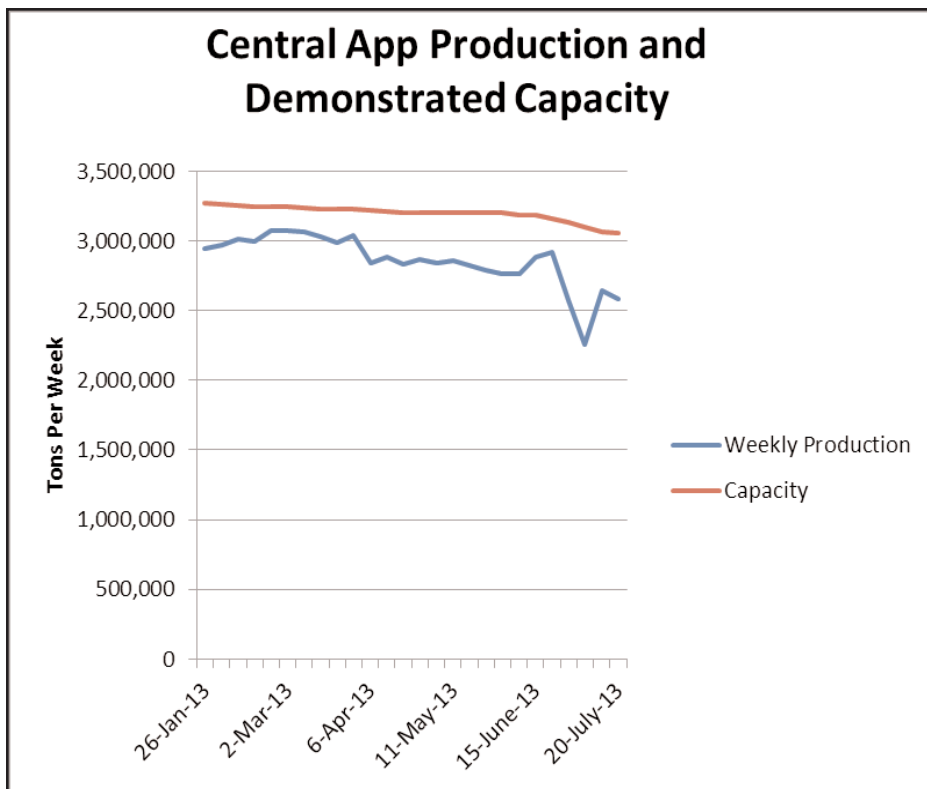
Asked if he anticipates further thermal coal production cutbacks out of the NAPP region in the near term, the source said: "There should definitely be more coming. We will have to see how hot the summer gets. I think there will be more cuts, but I haven't heard anything specific yet." □

U.S. weekly coal production
million tons





Northern Appalachian production continues to bounce around as producers deal with geologic and other mine issues. Source: IHS Energy Publishing



Despite the impact of summer burn, Central Appalachia continues to produce far below demonstrated capacity. Source: IHS Energy Publishing

Distressed tons could be about the only tons going into slow export steam market

Although the domestic market continues to improve for PRB, Illinois Basin and Northern Appalachian coal, the export market has all but come to a standstill. A trading source said that when the current deals play out about the only coal moving from the U.S. will be distressed tons that are sold below cost.

A source says that even with an improving domestic utility market there's going to be excess coal available whenever the export thermal market begins to pick up steam again.

"There is a lot of coal stockpiled at some of the mines in the Illinois Basin right now," a source said. "At one mine there was in excess of two million (short) tons."

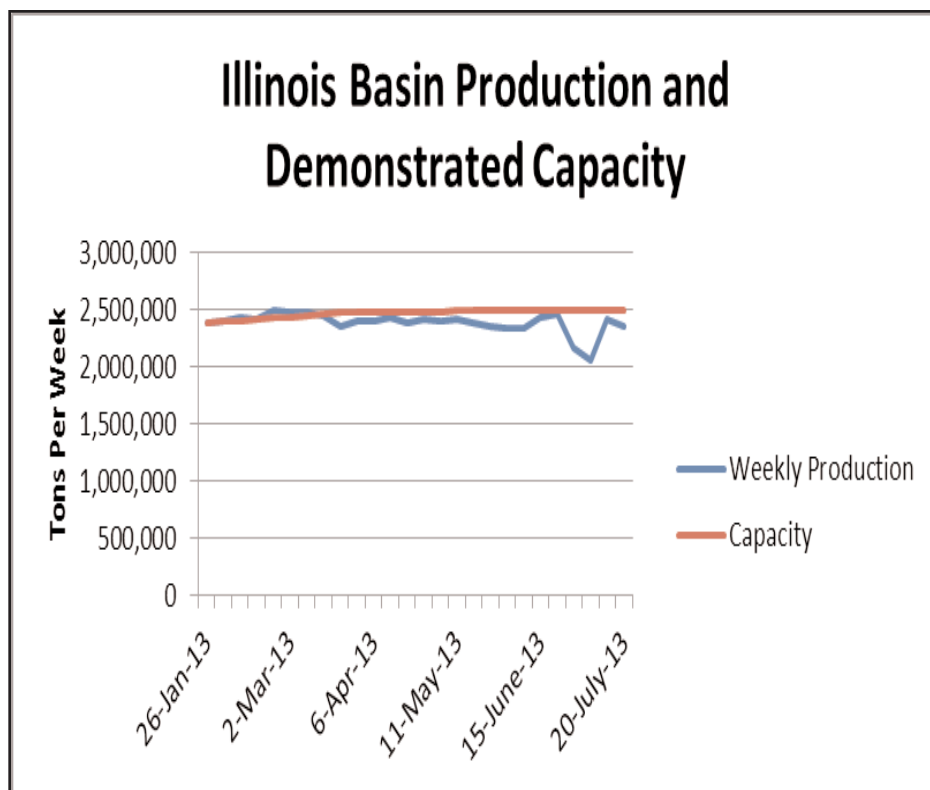
Like the PRB the Illinois Basin has seen slight demand increases as customer stockpiles have fallen, but the new demand hasn't translated into much better pricing. Illinois Basin spot coal has been shipping for as little as \$40 delivered to some utilities that take delivery by barge

and PRB coal has struggled to stay above \$10/ton.

"The lack of an export market has had an impact on both, but it has been more pronounced in the Illinois Basin," the source said. "I think some producers were expecting prices into to Europe to fall, but nothing like what we've experienced."

To make the market attractive for Illinois Basin coal the API needs to be above \$85/ton, a price that's not expected to be seen until the third quarter of 2014. At that price not only will the Illinois Basin be pulled back in but the PRB that was moving to the Gulf of Mexico for blending should be attractive as well.

"When the market does come back there will be a lot of Illinois Basin tons that should move fairly quickly," the source said. "We want to see the price above \$85, but when it gets close a lot of coal is going to be offered up." □



Illinois Basin production has been bumpy the past few weeks as producers adjust to the smaller export market.
Source: IHS Energy Publishing

Westmoreland begins coal shipments on new rail line built at company's Absaloka mine

Colorado-based Westmoreland Coal said that it has delivered its first shipment of coal via a new rail line built at Westmoreland Resources Absaloka mine in Montana.

The new connection to the main rail line allows trains to ship coal to the West, "providing increased market opportunities for Absaloka's coal" which is coal leased from The Crow Tribe. The company said the increased market opportunities "could result in both increased coal royalties for The Crow Tribe, as well as increased mine employment opportunities."

Westmoreland said the expansion of the rail line has already resulted in several new accounts including a test burn and spot sales to a new utility plant customer.

"Our team has worked very hard in concert with The Crow Tribe and the BNSF to make the completion of the western connection a reality," said Robert King, Westmoreland's president and CEO. "The new rail line opens up Westmoreland's sales opportunities to the West, allowing us to capitalize on our geographically-advantaged position in the North Powder River Basin." □

Westmoreland coal sees coal sales jump to 5.7 million tons during the second quarter

Westmoreland coal said its revenues grew to \$162.5 million during the second quarter, a 22.4 percent increase over the second quarter of 2012.

During the quarter Westmoreland sold 5.7 million tons compared to 3.9 million during the second quarter of 2012.

"During the second quarter, favorable weather and low hydro generation resulted in high demand for power," said Robert King, Westmoreland's CEO. "Our customers ran their plants at high levels and Westmoreland's mines and plants operated very well, producing \$32 million in EBITDA for the quarter. Second quarter EBITDA has historically been lower than other quarters, and we are extremely pleased with these results."

"Unfortunately, Unit 4 at the Colstrip plant experienced a major equipment failure on July 1st and this unit is estimated to be down for at least 6 months. We anticipate that this will negatively impact our EBITDA in the second half of the year, but still expect 2013 EBITDA to fall in the range between \$112 and \$120 million, consistent with the guidance given last quarter. Our ability to maintain our guidance is, in part, due to the limited downside pro-

vided by our cost recovery business model."

Westmoreland's revenues in Q2 2013 increased to \$162.5 million compared with \$132.8 million in Q2 2012. Westmoreland's Q2 2013 Adjusted EBITDA increased to \$32.0 million from \$14.6 million in Q2 2012. Net loss to common shareholders decreased by \$11.8 million, from \$12.4 million (\$0.89 per basic and diluted share) in Q2 2012 to \$0.6 million (\$0.04 per basic and diluted share) in Q2 2013.

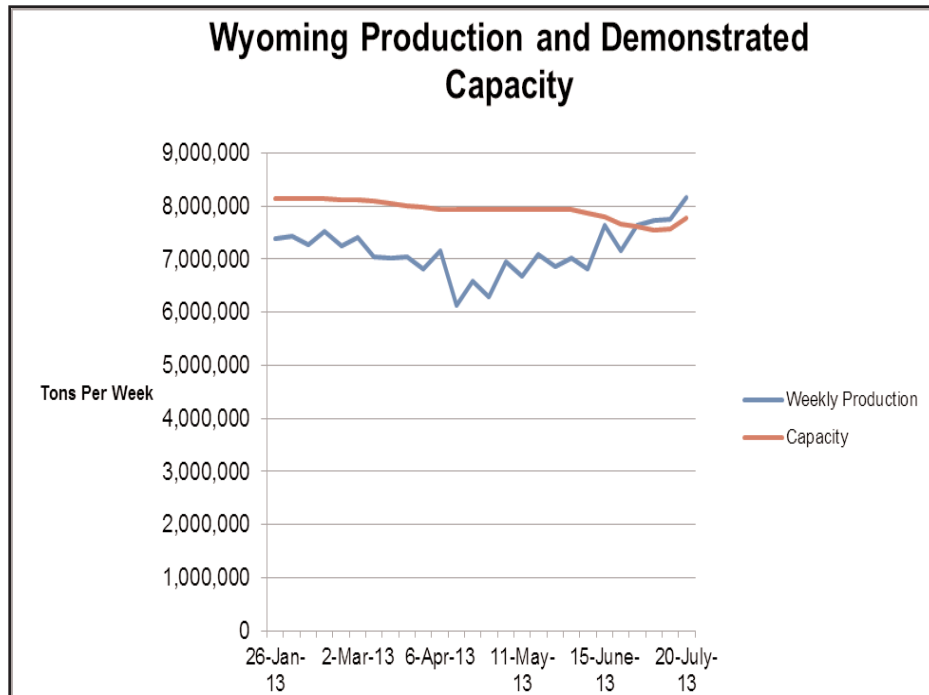
These improved results were driven largely by the timing of ROVA's planned maintenance outage and planned 2012 mine customer outages. In addition, revenue and Adjusted EBITDA increased due to stronger power demand and favorable weather conditions in 2013, which increased our sales. Adjusted EBITDA also benefited from Westmoreland's extension and amendment of its Indian Coal Tax Credit agreement.

Net loss applicable to common shareholders for the twelve months ended June 30, 2013 decreased to less than \$0.1 million compared with a loss of \$20.7 million for the twelve months ended June 30, 2012. □



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*Powder River Basin production has skyrocketed with summer demand, the trend suggesting more capacity might be brought to bear.
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COKING COAL...

Met coal prices continue to do the limbo as prices for blended coals fall even further

For those seeking to move cargos of "B" type coking coal blends to overseas markets, the pricing number is now around \$120/metric ton FOB vessel, according to a Coal & Energy source.

Needless to say, that translates to a frustratingly low at-the-mine price for U.S. coal producers.

"All the numbers we are hearing are at \$120 for a blend of coal going for export," the source said. "You are now looking at the low-\$70s at the mine net ton. That's basically where the market is now. That is not sustainable. It's pretty much for any 'B' coals, not the 'A' coals."

The expectation given such market conditions continues to be that a sizeable amount of metallurgical coal production reduction is on the way.

"There might be some people out there who can cover their cash cost at those numbers, but I don't think there are many," the source said. "It's just a matter of time. I think,

come the end of the year if the numbers continue like this, there will still be a lot of people falling out of the marketplace."

While the cutbacks are likely to come in fairly large volumes on the steam coal side, the source anticipates even more cuts from the met side.

"I'd say the cuts are coming from both," he said. "If you look at about 100 million tons being exported, you have to wonder. A lot of tons are staying home because the market here is better than overseas on both counts. The market is still bigger here for steam coal than for met. That has got to suggest that met mines that are marginal will continue to shut down.

"I think the larger potential for hits is with met than for steam. If you are a high-cost steam producer, anybody in that boat is worried, and there are a number of them. How long can you survive at these numbers." □

World steel production up year-over-year while metallurgical coal prices are down

World crude steel production for the 64 countries reporting to the World Steel Association was 132 million metric tons in June 2013, an increase of 1.9 percent compared to June 2012.

World crude steel production in the first six months of 2013 was 789.8 Mt, an increase of 2.0 percent compared to the same period of 2012. Asia showed an increase of 5.5 percent, while other regions recorded negative growth in the first half of 2013. The EU 27 was the most disappointing, producing 5.1-percent less and North and South America produced 5.8 percent and 4.6 percent less, respectively. The C.I.S. region showed a decrease of 3.0 percent.

China's crude steel production for June 2013 was 64.7 million tons, up by 4.6 percent compared to June 2012. Elsewhere in Asia, Japan produced 9.3 Mt of crude steel in June 2013, an increase of 0.9 percent compared to the same month last year. South Korea's crude steel production was 5.5 Mt in June 2013, down by 5.4 percent on June 2012.

In the EU, Germany produced 3.7 Mt of crude steel in

June 2013, a decrease of 2.2 percent compared to June 2012. Italy's crude steel production was 2.2 Mt, down by 10.3 percent on June 2012. France produced 1.4 Mt of crude steel in June 2013, up by 2.8 percent on June 2012.

Turkey's crude steel production for June 2013 was 3.0 Mt, a slight increase of 0.5 percent compared to June 2012.

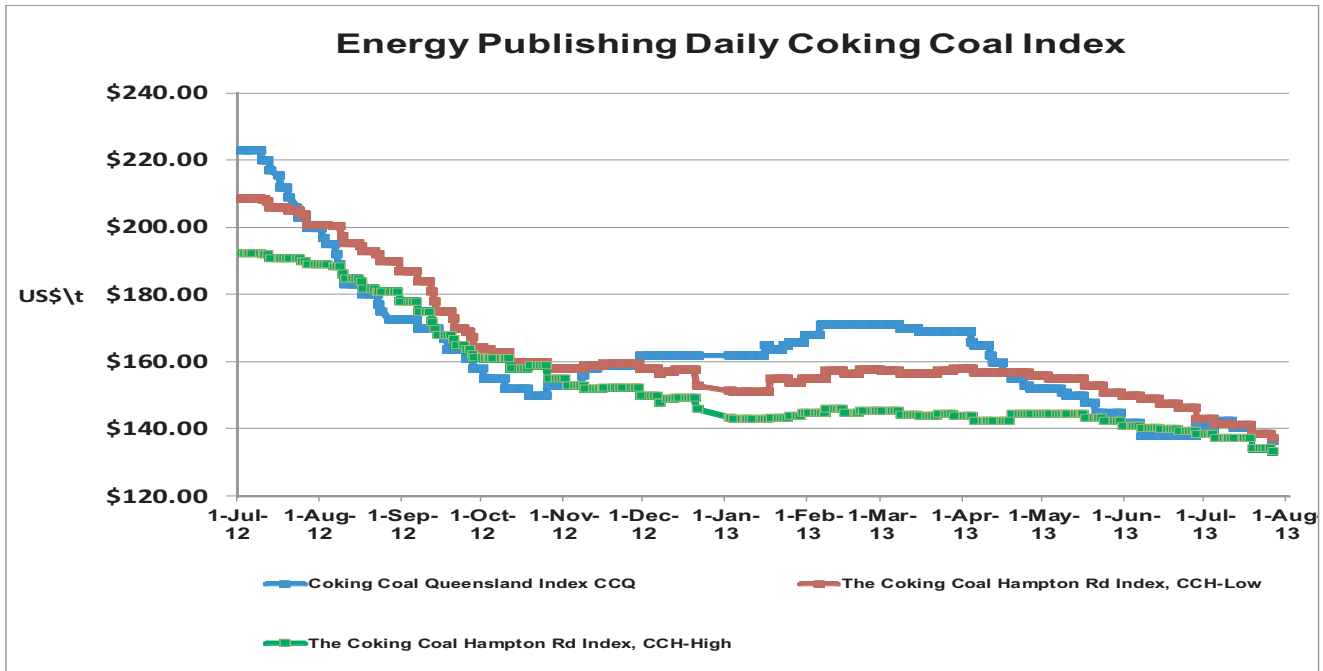
In June 2013, Russia produced 5.7 Mt of crude steel, a decrease of 0.8 percent compared to the same month last year. Ukraine's crude steel production for June 2013 was 3.1 Mt, 7.8 percent higher than June 2012.

The US produced 7.2 Mt of crude steel in June 2013, down by 0.2 percent on June 2012.

In June 2013, Brazil produced 2.8 Mt of crude steel production, an increase of 2.7 percent compared to June 2012.

The crude steel capacity utilization ratio for the 64 countries in June 2013 declined slightly to 79.2 percent from 79.6 percent in May 2013. Compared to June 2012, it is 1.5 percentage points lower. □

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PETCOKE...

Shipment of petroleum coke moves from Exxon's Chalmette refinery, market still slow

A cargo of petroleum coke from ExxonMobil's Chalmette, Louisiana refinery in the U.S. Gulf Coast reportedly has been sold, though details of the transaction were not immediately available.

While the buyer was not identified, the shipment is said to be for 30,000 metric tons of 4.5% sulfur petcoke. It is scheduled for September loading.

The transaction was originally supposed to be a combination of Chalmette and Baton Rouge refinery petcoke for a total of 50,000 tonnes, but a source said the two products were separated due to differences in specifications.

"It was supposed to be 50,000 tonnes with both Baton Rouge and Chalmette," the source said. "The Baton Rouge quality was so good that it went to anode grade and was sold to another industry. It was supposed to be one cargo of 50,000 tonnes, but in the end it was a smaller quantity."

While the petcoke market remains relatively inactive, there are a few consumers currently seeking tonnage.

Titan Cement of Greece is said to be seeking 0.15 tonnes of mid-sulfur petcoke. The request calls for delivery of up to three supramaxes of product with 4-5.5% sulfur content. Delivery could be at one of four ports: Elefsina, Thessaloniki, Patras or Kamari.

Nova Scotia Power has also been in the market in search of 450,000 tonnes of petcoke to cover requirements for three years beginning in the third quarter of this year.

Specifications for the petcoke include 14,000 Btu/lb., 40 HGI, 7% moisture and 4-6% sulfur.

The deadline for bids was July 2.

Petcoke pricing for high-sulfur Gulf Coast product is now in the mid-to-high \$50/tonne range, sources say. □

TRANSPORTATION NEWS...

Prices problematic as shippers see more lower quality met coal going into market

Not surprisingly, the guys who transport U.S. metallurgical coal to overseas markets continue to see a trend toward more interest in lower-quality products as steelmakers seek to reduce costs.

"In general, Central Appalachian production is under the greatest pressure because of the cost of production," Don Seale, Norfolk Southern chief marketing officer, said during the company's second-quarter earnings call. "So met coal coming out of Central App, especially if it is low-vol, higher-priced coal, is under greater pressure because what we are seeing in the steel market is international and domestic.

"With respect to met coal, we know that the settlements for the third quarter for the high-end coal is in the \$140s. That makes it problematic for a lot of U.S. coal production. Our international producers of steel are taking a different approach to save on the cost of producing coke for steelmaking where they are taking a longer process in the coke ovens, which enables them to use

lower-quality coals like high-vol 'B' coals. We are seeing that dynamic."

Seale added his views on export coal from Northern Appalachia and the Illinois Basin.

"The Northern App coal is tight right now in terms of the overall availability," he said. "The domestic market is getting more robust, and we are seeing that compete for some of the Northern App coal that could go into the export market. And, of course, the Illinois Basin coal, while the cost structure is favorable, we are still facing an API2 that is falling."

The thought that plummeting coking coal global benchmark pricing has dipped from the \$300-plus per tonne mark to below \$150 is certainly a concern, but Norfolk Southern CEO Charles Moorman does not anticipate any significant further declines in pricing.

An analyst on the call asked if the network is facing another dynamic in which the railroad could face com-

Continued on page 23

Prices problematic...

Continued from page 22

pressed margins again as high-revenue positive mix business comes off

“We do see the comparisons changing, particularly as we get past the first eight months or so of the year when we really, as a result of the deterioration in the export market, saw substantial compression in the margins in which were necessary in order to keep U.S. coal competitive,” Moorman said. “There is still softness out there in the export market.

“We will respond in the appropriate fashion from a productivity standpoint, and there are a lot of initiatives underway on the productivity side. But also on the pricing and margin standpoint, it is necessary to keep U.S. coal competitive but to move the business at levels that we find attractive. Having said all of that, we saw a collapse in benchmark metallurgical coal pricing from \$330 a tonne down to \$160 a ton. We don’t see anything like an equivalent collapse out there. So we may see margins bounce around along the level they are right now, but certainly not another big reset in what we are going to

do in export pricing.”

Speaking with an eye toward future export opportunities for U.S. coal, Moorman’s optimism wasn’t dampened due to current market conditions that might suggest the numbers will not hold up to past projections.

“Our view of the export market over time has not changed other than the fact that right now we are seeing an oversupply of coal in the world market,” he said. “The Australian exchange rates are helping their cost structure. Their production is up. We are seeing Europe in terms of their economic recovery not doing very well. And Europe, Northern Europe in particular, is a natural market for U.S. export coal.

“So until we begin to see the European economy begin to recover, we will continue to see exports from the U.S. be challenged. I do believe that the demand for thermal coal in the world market will continue to grow probably by as much as 50 million tonnes next year. Power plants are being built. Coal usage is being ramped up around the world. It’s all a matter of who is going to supply it and who has the cost structure to be able to supply it at world prices.” □

Norfolk Southern said revenue from coal dropped 17 percent compared to Q2 of 2012

Norfolk Southern reported net income of \$465 million during the second quarter, 11 percent lower than \$524 million for same quarter in 2012. Diluted earnings per share were \$1.46, down 9 percent compared with \$1.60 per diluted share in the same period last year.

“In the second quarter, Norfolk Southern delivered solid results, supported by growth in our chemicals, intermodal, and automotive businesses, despite continuing weakness in the coal markets,” said CEO Wick Moorman. “We continue to focus on service efficiency and velocity, which is enabling us to control operating expenses and deliver superior performance to our customers.”

Railway operating revenues were \$2.8 billion, 3 percent lower compared with second-quarter 2012, with shipment volumes increasing 2 percent. Second-quarter 2013 fuel surcharge revenues were \$306 million, or \$59 million less than the same period last year.

The railroad said its coal revenues were \$626 million, 17 percent lower compared with the same quarter last

year. NS said it was “due to lower average revenue per unit and a 4 percent decline in volumes, the result of a combination of reduced global demand for U.S. coal and competition from natural gas.”

General merchandise revenues were \$1.6 billion, 2 percent higher compared with the second quarter of 2012, driven by increased chemical and automotive shipments. Intermodal revenues increased 4 percent to \$588 million compared with the same period of 2012. Volumes increased 5 percent due to continued domestic and international growth.

Railway operating expenses were \$2.0 billion, 1 percent higher compared with second-quarter 2012.

Income from railway operations for the second quarter was \$836 million, 10 percent lower compared with the same period last year.

The second-quarter railway operating ratio was 70.2 percent, 4 percent higher compared with 2012. □

CONSOL Energy gets through was CEO Brett Harvey called a “challenging” quarter

CONSOL Energy reported a net loss for the second quarter of \$13 million – a loss of 5 cents per share – compared to net income of \$153 million (67 cents per share) during the second quarter of 2012.

The company lost an adjusted 3 cents per share¹ during the quarter, which is a non-GAAP measure, after adjusting for items not generally included in security analysts' estimates. The two major discrete items in this quarter were largely offsetting: a pre-tax loss of \$23.3 million for additional expenses associated with the Blacksville Mine fire, and a \$24.7 million pre-tax gain on the sale of assets.

“The second quarter was challenging,” said Brett Harvey, CONSOL chairman and CEO. “We incurred the expense associated with the Blacksville mine fire and were not able to realize revenue from the mine's planned sales. In addition, during the second quarter we exerted discipline in a weak Asian market environment, which resulted in overall lower sales volumes and shipments for the rest of the coal segment.”

During the quarter CONSOL produced 1.2 million tons of low-vol met coal, 900,000 tons of high-vol met coal and 11.7 million tons of thermal coal for a total of 13.8 million tons. Of the thermal coal production, 11.2 million tons were from Northern Appalachia and 500,000 tons were from Central Appalachia.

CONSOL's total coal inventory decreased by 47,000 tons, to 917,000 tons, as of June 30, 2013, marking a new 15-year low inventory level. Thermal coal inventory decreased by 102,000 tons to 773,000 during the quarter, as customers continued to take all contracted tonnage. Low-vol coal inventory increased during the quarter by 55,000 tons, to 144,000 tons.

The company said its Coal Division “continued to hold the line on costs. Across all tons, costs per ton sold were \$51.87 in the 2013 second quarter.” That was a decrease of 17 cents per ton from the second quarter of 2012.

“The progress was achieved despite lower sales volumes in the just-ended quarter,” the company said. “In the continuation of a process to manage costs, the company has initiated a thorough review of staffing levels and project expenditures.”

Harvey said that going forward the thermal coal market appears to be on an uptick.

“The improving picture for thermal coal demand is a cumulative result of the Blacksville outage, outages and idlings at competitor mines, the hot summer weather,

higher year-over-year gas prices, and announced retirements of less-efficient coal plants outside of our market portfolio that will result in the base-load coal plants that we supply running harder,” he said. “All of these factors bode well for second half 2013 thermal demand in our core region.”

CONSOL's coal marketing update:

- **Low Vol:** The benchmark price for prime quality, Australian low vol coking coal declined from \$172 per metric ton to \$145 per metric ton FOB Terminal Australia from the second quarter to the third quarter in 2013. Following the benchmark settlement trend, CONSOL's Buchanan Mine realized lower FOB prices as a result of Australian prime low vol coking coal prices to China, on a delivered basis, declining by \$22 per metric ton during the second quarter of 2013. However, Buchanan's low cost position presented new sales opportunities during the quarter in China and India, which enabled CONSOL to operate the mine at higher-than-forecast production levels.

During the second quarter, CONSOL loaded Buchanan coal for a new customer in Brazil and two new customers in China, while maintaining its existing business with traditional customers. CONSOL continues to ship to European customers despite continued pressure in the European economy and excess availability of competing metallurgical coals. CONSOL is in the process of developing new business with domestic steel makers.

- **High Vol:** CONSOL continues to ship its NAPP high vol coal to existing customers in Korea, China, Brazil and the US. Prices for this product have remained more stable than other classes of metallurgical coal. The demand for Bailey coal, and other Pittsburgh #8 seam products, continues to exceed the supply, and the versatility of these coals allows them to compete as high vol metallurgical, PCI and high-BTU thermal coal. CONSOL expects to continue to create and evaluate new sales opportunities that provide the best returns for the portfolio.

- **Thermal:** CONSOL's NAPP mine inventory levels are at a new 15-year low, and PJM utility inventories remain below their 5-year average levels. The market environment in the Southeast remains challenging but shows modest signs of improvement. Southeast utility inventories are still higher than desired but are slowly declining. European coal generation is running strong, however, the market remains oversupplied. □

Peabody Energy's announces second-quarter earnings: No surprise as revenues fall

Peabody Energy said its second quarter revenues declined to \$1.73 billion and its earnings per share were 33 cents when it opened the earnings season for coal companies Tuesday.

The company said the 13 percent decline in revenue was because of lower realized pricing from its mining operations and lower trading and brokerage results. The company's Australian operations sold 8.6 million tons during the quarter while in the U.S. a higher percentage of Western shipments led to revenues of \$970.9 million.

"The strength of Peabody's global platform and the significant progress of our cost containment actions helped us overcome a number of challenges during the quarter," said Peabody Energy Chairman and CEO Greg Boyce. "Our progress in reducing capital and moving our operations down the cost curve highlights the actions we are taking to succeed in all market conditions.

"Peabody continues to drive improvements across our platform, which remains very well positioned with competitive assets in the growth regions of the United States and Australia."

Peabody said it expects total sales of 230 million tons to 250 million tons for the year, with U.S. sales accounting for 180 million to 190 million tons of that. With Australia kicking in 33 million to 36 million tons the rest will come from trading and brokerage activity.

U.S. revenues are expected to be 5 to 10 percent lower per ton than in 2012.

"Despite a slow start to summer, U.S. coal generation is up significantly year to date and natural gas generation has declined sharply," said Boyce. "Combined with reduced coal production, U.S. coal inventories are expected to improve to their lowest levels in several years with Powder River Basin stockpiles leading the decline."

Peabody said it projects 2013 U.S. coal consumption for electricity generation to grow by 50 to 70 million tons over prior-year levels. Coal demand increased 11 percent in the first half of the year.

"Coal shipments have fallen 5 percent through June, leading to an above-average customer stockpile draw-down," the company said. "Customer inventories of Powder River Basin coal are approximately 25 percent below prior-year levels on a days-burn basis."

Longer term, Peabody expects U.S. coal consumption of Powder River Basin and Illinois Basin coal to continue to increase, led by higher coal plant utilization and basin switching.

Peabody's projected 2013 U.S. production is essentially fully priced, with 2014 sales 70 to 80 percent priced based on comparable 2013 production levels.

"Both U.S. and global coal demand continue to grow, and we expect the seaborne market to exceed 1.2 billion tonnes this year as China and India set new import records," said Boyce. "While seaborne coal supplies remain at elevated levels, the world's largest producers – China and the United States – have reduced production, and we expect additional cutbacks in the second half of the year."

Peabody said that despite China and India driving record seaborne coal demand, industry supplies remain high with elevated output from Indonesia and Australia.

Production cuts are beginning to occur as China and the United States have reduced production by 4 percent and 5 percent through June, respectively. U.S. exports declined an estimated 30 percent in June, with reductions likely to continue through the back half of the year as legacy contracts expire and higher cost production is uneconomic.

"Peabody projects global seaborne thermal demand to rise approximately 50 million tonnes in 2013 as approximately 75 gigawatts of new coal generation are scheduled to come on line. Between 2012 and 2017, annual world coal demand is estimated to grow by approximately 1.2 billion tonnes, driven by 425 gigawatts of new coal generation expected to come on line, along with rising global steel production and increasing coal conversion activities."

Peabody revenues of \$1.73 billion resulted in adjusted EBITDA of \$254.3 million compared with \$450.1 million in the prior year. Second quarter Adjusted EBITDA includes the impact of \$32.5 million in charges relating to a \$20.6 million court judgment and a \$11.9 million voluntary employee separation program in the United States. Income from Continuing Operations totaled \$101.4 million with adjusted earnings per share of 33 cents. □



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SunCoke Energy sees net income fall, cuts coal production costs by \$19 a ton

SunCoke Energy reported second quarter 2013 net income attributable to shareholders of \$5.7 million, or 8 cents per diluted share, down from net income attributable to shareholders of \$22.7 million, or 32 cents per diluted share in second quarter 2012.

“Our coal business continues to be a challenge, weighing down Adjusted EBITDA by nearly \$12 million in the second quarter,” said Fritz Henderson, SunCoke chairman and CEO. “In response to industry conditions, we have made substantial progress on our coal action plan, reducing coal production costs by about \$19 per ton, and we are confident in our ability to further drive down these costs.”

“Our domestic coke business continues to deliver solid results, generating \$61.3 million of Adjusted EBITDA in the quarter. We believe we can sustain and build on this performance as we focus on achieving operations excellence and continue to make progress refurbishing our Indiana Harbor cokemaking facility.”

In second quarter SunCoke’s total revenues were down 12.4 percent to \$403.7 million versus the same prior year period “reflecting the pass-through of lower coal prices in our cokemaking business and a \$52.55 per ton decline

in average coal sales price in our coal mining segment, partly offset by higher coal sales volume.”

The company’s coal mining segment production fell by 34,000 tons from the second quarter of 2012 to 367,000 tons. However sales volumes were up 92,000 tons with an average sales price of \$114.18/ton compared to \$166.73/ton during the second quarter of ’12.

“Total coal mining revenues (including sales to affiliates) was down due to the decline in average sales price, partly offset by increased third-party coal sales volumes,” SunCoke said. “Segment revenues (excluding sales to affiliates) rose due to higher sales volumes. The difference between coal sales volumes and coal production in second quarter 2013 was comprised primarily of increased purchases of raw coal.”

The company said adjusted EBITDA was unfavorably impacted by the decline in average coal sales price.

“This was partly offset by lower cash production costs of approximately \$19 per ton, reflecting the success of our coal action plan initiatives, which include idling mines, reducing staff, upgrading equipment and installing a new cyclone system in our coal prep plant.” □

Cliffs Natural Resources deals with double whammy of poor coal, iron ore markets

It’s not good news that coal isn’t the only commodity that’s struggling these days. Just ask Cliffs Natural Resources about the iron ore business.

Still, Cliffs beat most Street analysts with revenue attributable to shareholders of \$133 million or 82 cents per share. In the second quarter of 2012 revenue was \$258 million or \$1.81 per share.

The company said “the lower revenues were driven by an 11 percent decrease in global seaborne iron ore pricing to an average of \$126 per ton for a 62 percent Fe fines product (C.F.R. China). Cost of goods sold increased by 7 percent to \$1.2 billion, primarily driven by higher sales volumes in North American Coal and U.S. Iron Ore, unfavorable inventory adjustments and higher idle costs.”

Cliffs’ President and CEO Joseph Carrabba, who will retire by the end of the year, said the company did pay down \$110 million in debt and was able to lower some expenses during the quarter.

“Our U.S. Iron Ore, Asia Pacific Iron Ore, and North American Coal segments once again delivered strong operational performances,” he said. “Looking at the remainder of the year, we also have a positive outlook for

these segments. In Eastern Canadian Iron Ore, the team remains steadfast in their efforts to improve the stability of the operations.”

Cliffs’ North American Coal segment produced just over 1.7 million tons during the quarter and had sales of 2.1 million tons, both numbers higher than during the second quarter of ’12. For the six months ended June 20 Cliffs has produced 3,459,000 tons and sold 3,874,000.

“The increase was driven by significantly higher sales volume from Cliffs’ Oak Grove and Pinnacle mines,” Cliffs said. “During the prior year’s second quarter, sales volume was unfavorably impacted as the Oak Grove preparation plant only came into full operation during the quarter following repairs needed due to the severe weather damage that occurred in 2011. Consequently, time was needed to rebuild the inventory at the export terminals.”

Sales from Pinnacle improved “due to increased production and customer demand.”

North American Coal’s 2013 second-quarter revenues per ton were down 13 percent to \$104.89, versus \$120.32 in the second quarter of 2012.

Continued on page 27

Cliffs Natural...

Continued from page 26

"The decrease was primarily driven by lower year-over-year market pricing for metallurgical coal products," Cliffs said. "This was partially offset by favorably priced annual and carryover contracts, as well as a product mix that was comprised of certain higher quality metallurgical coal products."

Cash cost per ton decreased 20 percent to \$88.12, from \$110.72 in the year-ago quarter. Second-quarter 2013 cash cost per ton benefited from improved fixed-cost leverage from the increased sales volumes, lower maintenance spending and employment-related expenses, and an overall focus on improving the operation's cost structure.

Cliffs is maintaining its full-year 2013 North American

Coal expected sales and production volumes of approximately 7 million tons. Sales volume mix is anticipated to be approximately 69 percent low-vol metallurgical coal and 22 percent high-vol metallurgical coal, with thermal coal making up the remainder. The company is lowering its revenue per ton outlook to \$100 to \$105 from its previous estimate of \$110 to \$115.

"The decrease is primarily driven by lower market pricing for metallurgical coal products."

Cliffs is decreasing its cash-cost-per-ton expectation to \$90 - \$95 from its previous expectation of \$95 - \$100. The decrease is driven by an overall focus to improve the operation's cost structure. Full-year 2013 depreciation, depletion and amortization is expected to be approximately \$16 per ton. □

Despite market Alliance Resource Partners sets second quarter production/sales record

Alliance Resource Partners rode record sales and record production to revenues of \$553.6 million during the third quarter, a 4.5 percent increase over 2Q of 2012. The company is also on a 21-consecutive quarter winning streak.

"During the 2013 quarter, increased volumes at the Tunnel Ridge longwall operation, which began production in May 2012, and strong performance at the Gibson North, River View and Onton mines, drove coal sales volumes up 13.3 percent to a record 9.8 million tons and production volumes higher by 23.6 percent to a record 10.1 million tons," Alliance said. "Volume growth led to record revenues and EBITDA and increased net income in the 2013 Quarter, more than offsetting lower average coal sales prices that resulted primarily from ARLP electing not to participate in the weak metallurgical export markets."

The company also said coal brokerage and purchasing activity declined in the 2013 Quarter, resulting in a \$15.4 million reduction in outside coal purchases.

"ARLP continued its strong operating and financial performance in the 2013 Quarter – posting new benchmarks for coal sales and production volumes, revenues and EBITDA," said Joe Craft, president and CEO. "The ability to deliver these exceptional results, especially in such challenging market conditions, speaks to the soundness of ARLP's strategy, the quality of our assets and the hard work and dedication of our people."

"These attributes keep ARLP well positioned for the future and gave the Board the confidence to increase distributions to our unitholders for the twenty-first consecutive quarter."

For the first half of the year the company said increas-

es at the River View, Gibson North and Tunnel Ridge mines and production from the Onton mine, which was acquired in April 2012, led to record production and sales volumes as tons produced climbed 19.4 percent and tons sold increased 18.5 percent, compared to first half of 2012.

"Higher coal sales volumes drove 2013 period revenues to a record \$1.1 billion, an increase of 13.2 percent compared to the 2012 period," the company said. "The increase in coal sales volumes was partially offset by lower average coal sales prices, which decreased to \$55.14 per ton sold in the 2013 period compared to \$57.19 per ton sold for the 2012 period."

Alliance said the decrease was primarily due to the lack of coal sales into the met export markets in the first half of 2013.

Coal sales volumes in the Illinois Basin increased from the 2012 quarter primarily as a result of strong sales and production performance at the River View, Gibson North and Onton mines.

In Central Appalachia, coal sales volumes declined sequentially as a result of timing differences on contract shipments in 2Q of '13 quarter compared to the sequential quarter.

The continued ramp-up of longwall production at the Tunnel Ridge mine drove Northern Appalachian coal sales volumes higher during the quarter compared to both 2012 and sequential quarters.

Outlook

ARLP is now anticipating 2013 coal production in a range of 39.3 to 39.6 million tons and sales volumes in a range of 38.6 to 39.6 million tons.

Continued on page 28

Despite market...

Continued from page 27

“Assuming customer deliveries occur as planned, ARLP is essentially fully priced and committed for its anticipated 2013 coal sales volumes and has secured commitments for approximately 31.9 million tons, 25.7 million tons and 19.1 million tons in 2014, 2015 and 2016, respectively, of which approximately 1.0 million tons in 2014, 2.5 million tons in 2015 and 3.3 million tons in 2016 remain open to market pricing.”

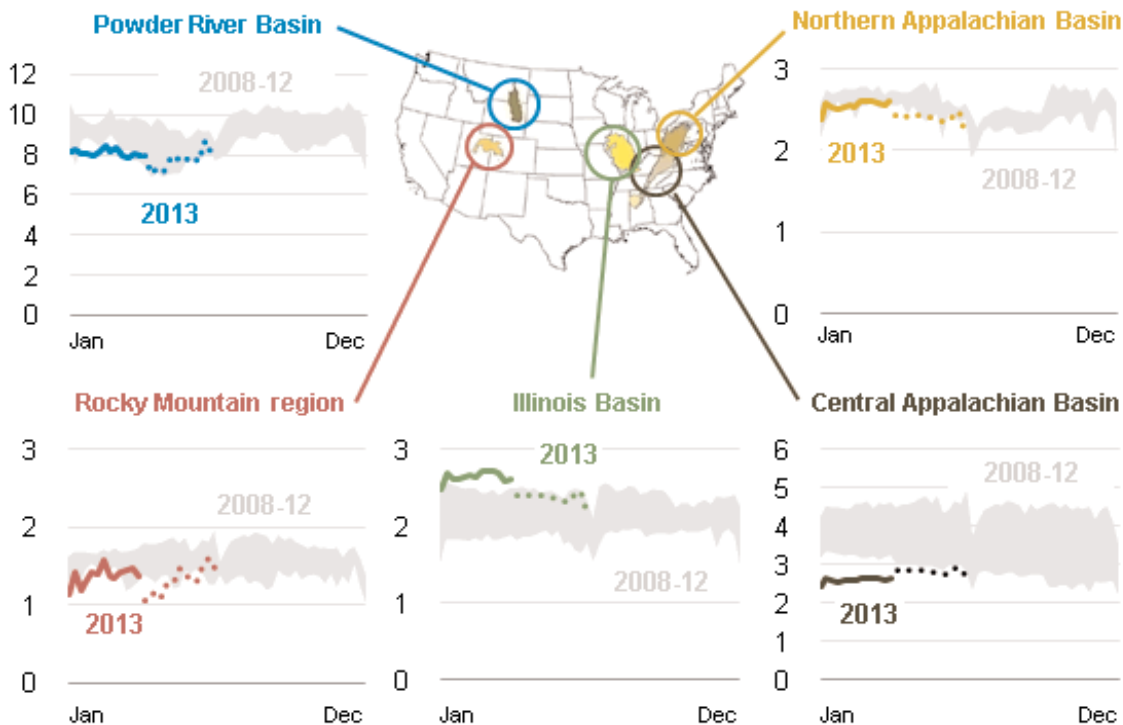
ARLP is increasing its estimated ranges for 2013 revenues, excluding transportation revenues, to \$2.165 to \$2.225 billion, EBITDA to \$675.0 to \$695.0 million, and

net income to \$375.0 to \$395.0 million.

ARLP said it continues to anticipate total capital expenditures during 2013 in a range of \$370.0 to \$400.0 million, which includes expenditures for mine expansion and infrastructure projects, maintenance capital, continued development of the Gibson South mine, and reserve acquisitions and construction of surface facilities related to the White Oak mine development project.

In addition, ARLP has funded \$47.5 million of preferred equity investments to White Oak in 2013 and, based on currently anticipated equity capital contributions by its partners, does not expect to make further equity investments in White Oak this year. □

Weekly coal production by basin, 2013 vs. 2008-12 range
million tons



INTERNATIONAL NEWS...

Drummond workers walk out, company reportedly declaring case-by-case force majeure

Workers at Drummond's Colombian operations walked off of the job Tuesday afternoon, effectively sidelining 2.4mt per month of the country's export volume of thermal coal.

Now Drummond has reportedly started declaring force majeure on export cargoes on a case by case basis. "It's probably safe to say that Colombia isn't going to meet its export target this year," a source said.

In the immediate-term, the international coal market is more focused on prices, and the height to which a labor strike might catapult them.

"I think we will see prices rise perhaps \$2.00 to \$3.00 per tonne on a short term basis," a trader said. "I really believe this strike would need to last for several months to have any effect on the over-supply situation we have in the European market. It will take some time to chisel away at that."

Under Colombian law, the union had until next Monday to go on strike.

Few expected the work stoppage to begin yesterday because officials from Colombia's Ministry of Labor were mediating the negotiations.

Union officials claim Drummond is not willing to compromise on issues, including the fate of 400 port workers that are scheduled to lose their jobs in January when Drummond's new port goes into operation. Due to modern technology and mechanization, the port will not need the workers.

The union wants Drummond to find other jobs for all of the workers. Drummond said it would find jobs for some of the workers, and would offer a compensation package to others.

Last week a union official told Inside Coal that both parties weren't far apart on reaching a salary agreement, Work at the mines and port was suspended immediately after a strike was declared.

"Drummond has experienced a rough relationship with the union over the years," another trading source said. "If any coal company in Colombia was expected to have a long, drawn out strike it would be Drummond. However, I believe the Colombian government will exert all of the pressure it can to bring the strike to a close. The country needs the tax revenues."

This is the second strike to hit the Colombian coal industry this year. In the first quarter, Cerrejon's operation was paralysed with a 32-day labor strike.

Colombia is targeting 93 to 94mt of production in 2013. However, the strikes and other interruptions to exports could push production down to last year's level of 89.2mt.

At least two customers are said to have received fm notices, one of them rumoured to be EdF Trading.

Drummond's monthly output is between 2.2 and 2.5mt, equivalent to 33-34% of Colombia's monthly exports. Union members have said that they are prepared to stay on strike for the sixty days allowed by Colombian labour law, after which an arbitration court is called and the workers have to go back to work.

There are no meetings planned between the company and Sintramienergética union to end the strike that started on July 23.

The union remains open for discussion, as long as the company is ready to negotiate, said a member of the negotiating committee. □

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Confirmation of Gina McCarthy as head of EPA not good news for coal industry

When the Senate confirmed Gina McCarthy as the new head of the Environmental Protection Agency last week the first things written how she would focus “like a laser beam” on reducing the use of coal.

And the good news just keeps rolling in. And the new McCarthyites who support her are saying she can get a lot done “without having to get approval from Congress.” But all is not right in the world as far as environmentalists are concerned.

In fact, the greens are already beating up McCarthy because her focus is going to be so coal-centric that they believe she will give natural gas and oil a pass. Coupled with the news that Secretary of State John Kerry is sticking his nose in the Chinese coal industry to “help China diversify its fuel mix away from coal,” the Obama administration’s war on coal could turn out to be a blitzkrieg.

It appears that Kerry’s talking with China – what he says about it can be found at the Huffington Post – is an attempt to slow coal exports from the U.S. Fewer export

opportunities means tougher times for U.S. miners and according to one Big Green cheerleader “more leeway for the EPA to restrict destructive mining practices in the U.S., namely mountaintop removal.”

But amidst the McCarthy confirmation and the Kerry we-all-hate-coal fest with China a Coal & Energy source said there’s really no news there.

“It’s been this way since 2008,” he said. “Give the President credit, he said he was going after coal and he’s done it.”

After her confirmation one Washington media outlet wrote “McCarthy is in a powerful position to shepherd through new regulations for emissions from power plants.”

The question is whether they were talking about new regulations or the regulations that are already looming.

“I’m going to go with the regulations we already know about,” the source said. “There’s not a lot out there that they can regulate when it comes to coal.” □



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Weekly U.S. Coal Production Overview

(thousand short tons)

Coal-Producing Region and State	Week Ended			Year-To-Date[1]			52 Weeks Ended		
	7/20/2013	7/13/2013	7/21/2012	7/20/2013	7/20/2012	% Change	7/20/2013	7/21/2012	% Change
Alabama	349	358	403	10,338	11,428	-9.5	18,594	19,354	-3.9
Alaska	35	36	33	968	1,181	-18.0	1,839	2,141	-14.1
Arizona	125	128	130	3,814	4,525	-15.7	6,782	8,148	-16.8
Arkansas	1	1	2	40	39	0.7	98	89	11.0
Colorado	403	532	540	12,249	15,577	-21.4	25,184	28,650	-12.1
Illinois	885	906	1,033	27,419	26,776	2.4	48,785	44,376	9.9
Indiana	682	698	732	20,334	20,754	-2.0	36,211	37,788	-4.2
Kansas	1	1	s	15	8	80.2	23	38	-41.3
Kentucky Total	1,625	1,663	1,692	48,358	53,684	-9.9	85,240	101,265	-15.8
Eastern	836	855	887	24,619	29,718	-17.2	43,458	59,099	-26.5
Western	789	808	806	23,739	23,966	-1.0	41,782	42,166	-0.9
Louisiana	68	70	87	1,995	2,167	-7.9	3,799	4,010	-5.3
Maryland	32	32	46	999	1,289	-22.5	1,832	2,644	-30.7
Mississippi	69	46	66	1,651	1,585	4.1	3,012	2,876	4.7
Missouri	7	8	9	217	247	-12.2	391	460	-14.9
Montana	1,149	1,032	755	24,117	19,583	23.2	41,137	40,452	1.7
New Mexico	603	463	486	11,954	11,706	2.1	22,691	20,398	11.2
North Dakota	562	545	575	15,490	15,083	2.7	27,936	28,172	-0.8
Ohio	518	530	554	15,282	15,965	-4.3	26,864	28,698	-6.4
Oklahoma	18	19	19	585	597	-2.1	1,041	1,107	-5.9
Pennsylvania Total	981	1,004	935	31,367	32,106	-2.3	55,079	58,700	-6.2
Anthracite	39	40	51	1,151	1,329	-13.4	2,184	2,388	-8.6
Bituminous	942	964	883	30,216	30,777	-1.8	52,896	56,312	-6.1
Tennessee	22	23	24	727	784	-7.3	1,245	1,453	-14.3
Texas	822	799	930	22,131	22,402	-1.2	43,786	43,277	1.2
Utah	451	480	268	10,450	9,449	10.6	17,436	18,235	-4.4
Virginia	310	318	368	9,422	11,382	-17.2	16,945	20,962	-19.2
West Virginia Total	2,142	2,193	2,329	65,315	69,438	-5.9	115,939	126,752	-8.5
Northern	727	744	783	22,765	23,298	-2.3	40,837	40,765	0.2
Southern	1,416	1,449	1,546	42,551	46,141	-7.8	75,101	85,987	-12.7
Wyoming	8,152	7,741	7,685	207,588	216,362	-4.1	391,681	420,213	-6.8
Appalachian Total	5,190	5,312	5,544	158,069	172,111	-8.2	279,956	317,663	-11.9
Interior Total	3,343	3,354	3,685	98,125	98,543	-0.4	178,930	176,187	1.6
Western Total	11,480	10,957	10,473	286,629	293,465	-2.3	534,687	566,407	-5.6
East of Miss. River	7,615	7,770	8,181	231,211	245,193	-5.7	409,747	444,870	-7.9
West of Miss. River	12,398	11,854	11,520	311,612	318,926	-2.3	583,827	615,388	-5.1
Bituminous and Lignite	19,974	19,583	19,650	541,672	562,790	-3.8	991,390	1,057,870	-6.3
Anthracite	39	40	51	1,151	1,329	-13.4	2,184	2,388	-8.6
U.S. Total	20,013	19,623	19,701	542,823	564,119	-3.8	993,574	1,060,258	-6.3
Railroad Cars Loaded	117,113	116,050	127,129	3,287,996	3,443,541	-4.5	6,068,986	6,589,855	-7.9



IHS McCloskey Coal Conference Calendar 2013

Date	Conference Name	Sector	Region	City
24th – 25th September	IHS McCloskey Indian Coal Markets Conference & Awards Dinner 2013	Coal	APAC	New Delhi

IHS will also be hosting a number of Energy Conferences which may be of interest to you or your colleagues throughout 2013

Date	Conference Name	Sector	Region	City
20th – 22nd May	IHS Forum EMEA 2013	Oil & Gas, Chemicals	EMEA	Amsterdam
12th – 14th June	IHS Asia LPG Seminar 2013	Oil & Gas, Chemicals	APAC	Singapore
17th – 19th September	IHS Forum Americas 2013	Oil & Gas, Auto & Chemicals	Americas	Houston
9th – 10th October	IHS Forum Asia 2013	Oil & Gas, Auto & Chemicals	APAC	Singapore
13th – 14th November	IHS Forum Middle East 2013	Oil & Gas, Chemicals & Plastics	EMEA	Dubai
19th – 20th November	IHS Latin America LPG Seminar	Oil & Gas, Chemicals	Americas	Rio de Janeiro
19th – 20th November	IHS Forum Latin America 2013	Oil & Gas, Chemicals	Americas	Rio de Janeiro

If you would like further details about any of the events or details of how to register, please visit:

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