U.S. Domestic Coal Production, Producers, Outlook

Energy Finance 2015

Panel 12

Institute for Energy Economics and Financial Analysis
IEEFA.org

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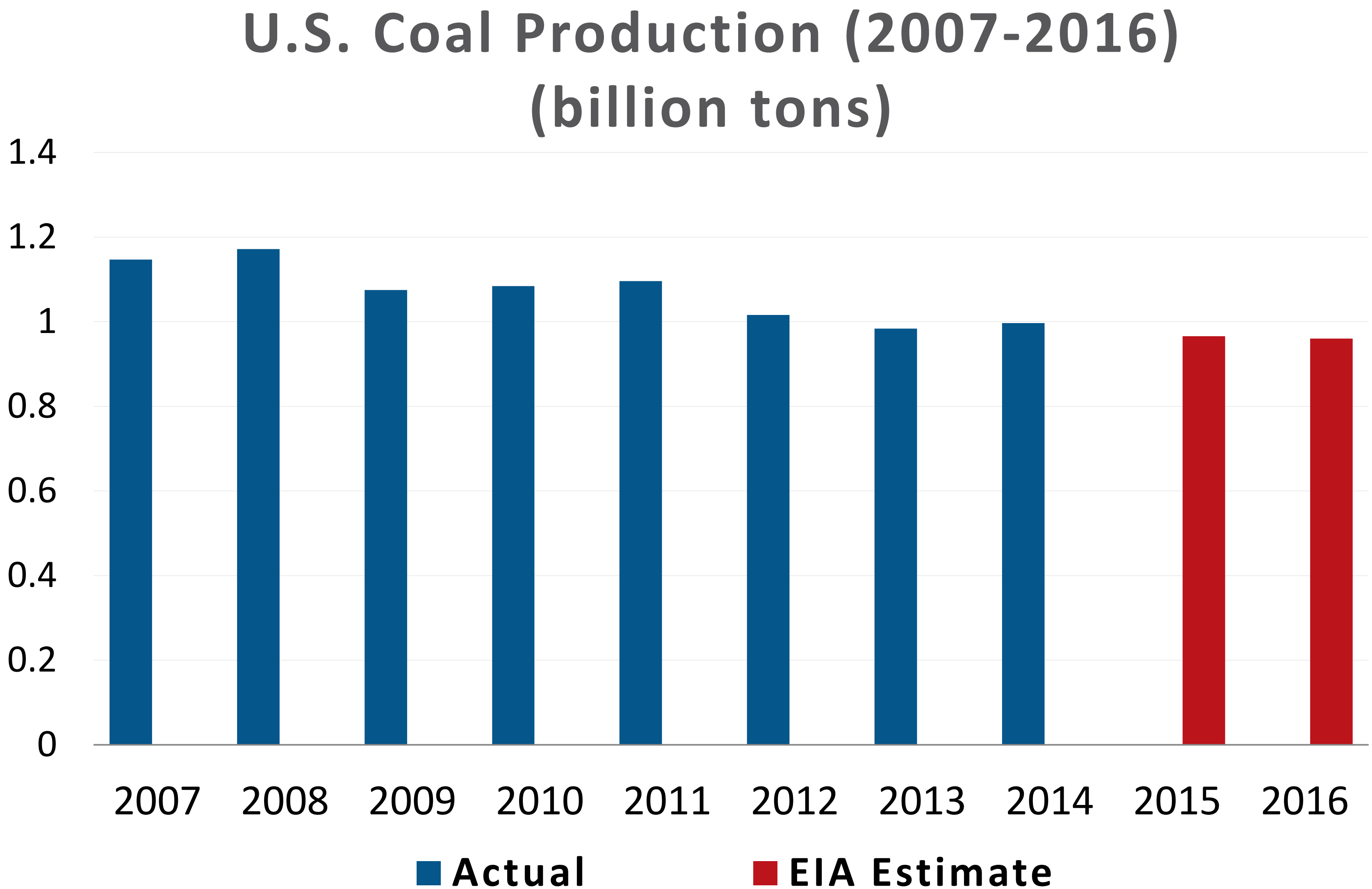
U.S. COAL PRODUCTION AND USE DOWN

Production down 212 mtpa from ‘08



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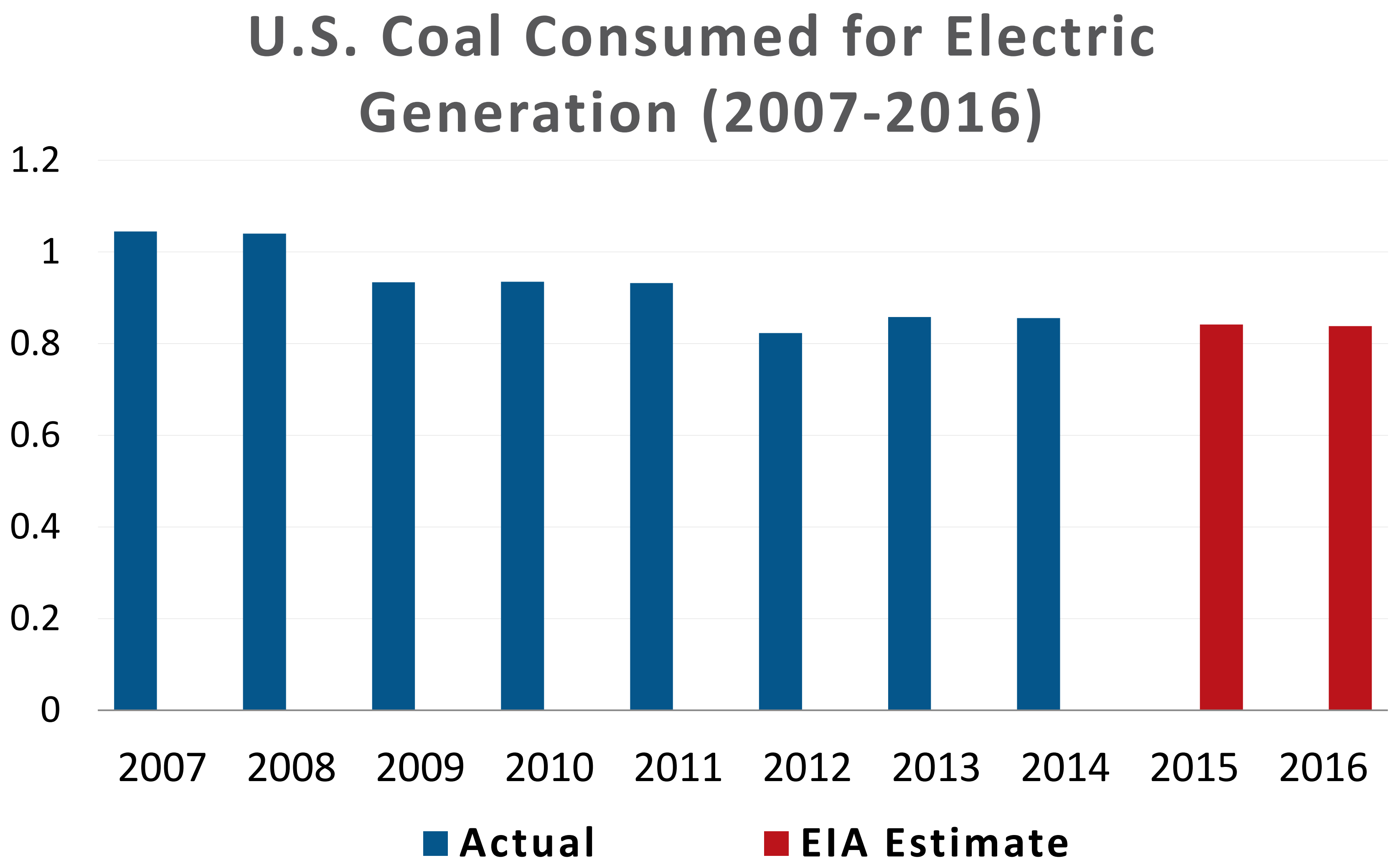
Consumption for Electricity down 200 mtpa since 2008



EIA Long Term Expectations

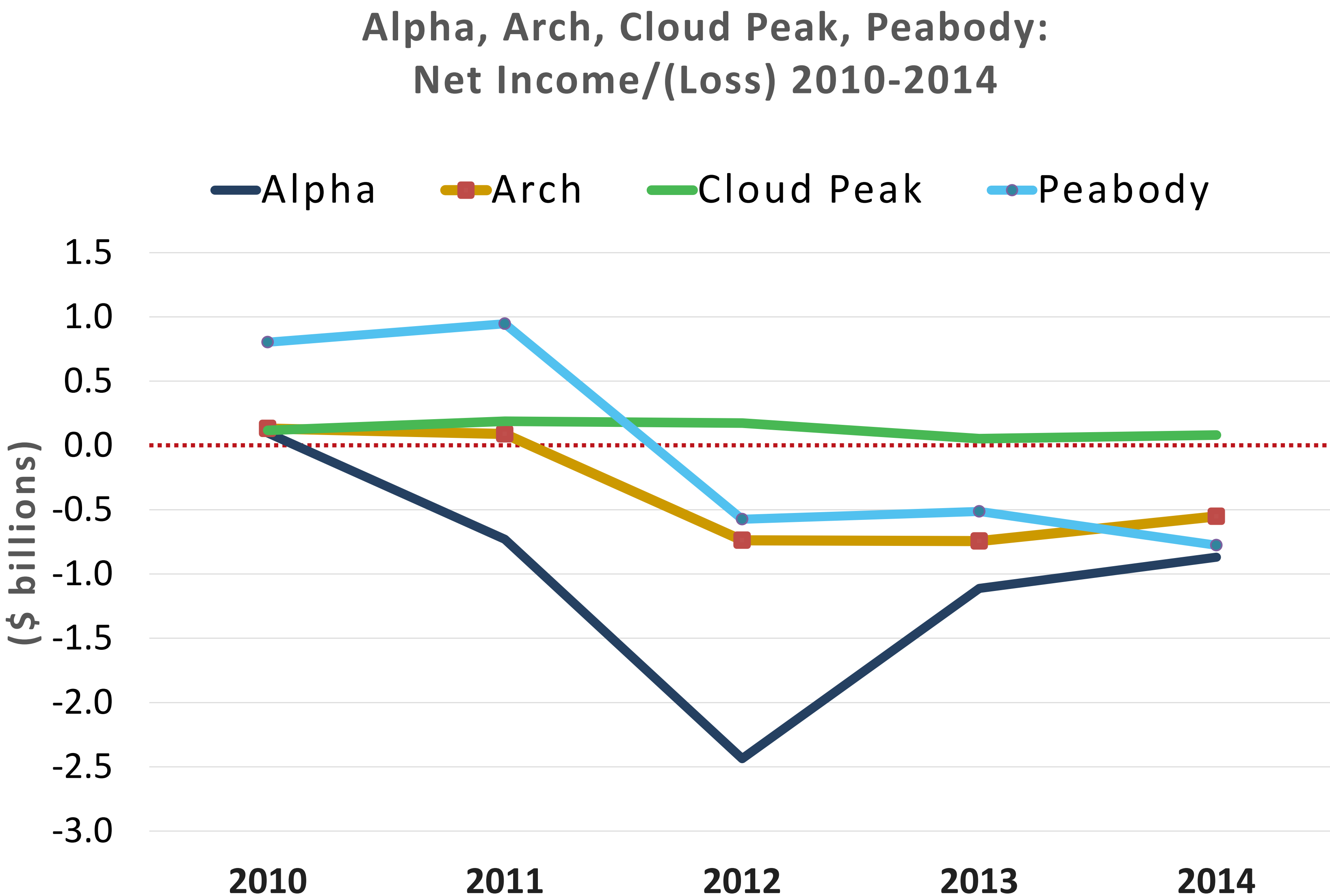
- Overall, through 2030 flat, coal market share declines from today 38% to 32% of electricity market; thermal exports mid 30 mtpa range.
- Illinois Basin gains (gains)
- Powder River Basin (small gains)
- Northern Appalachia (small gains)
- Central Appalachia (significant losses)

Observations

- Pace of coal decline too slow
  - 2015 important year; losses larger
  - Only Peabody selling more coal than last year
- Companies/Industry shrinking little upside
- NatGas/renewables downward price pressure
- Rising costs pressure upward- lax demand
- Looming Debt Problems
- Tight Margins more losses
- Company and market change
  - Combination, diversification

U.S. COAL PRODUCERS WEAK

Large Companies Posting Large Annual Losses



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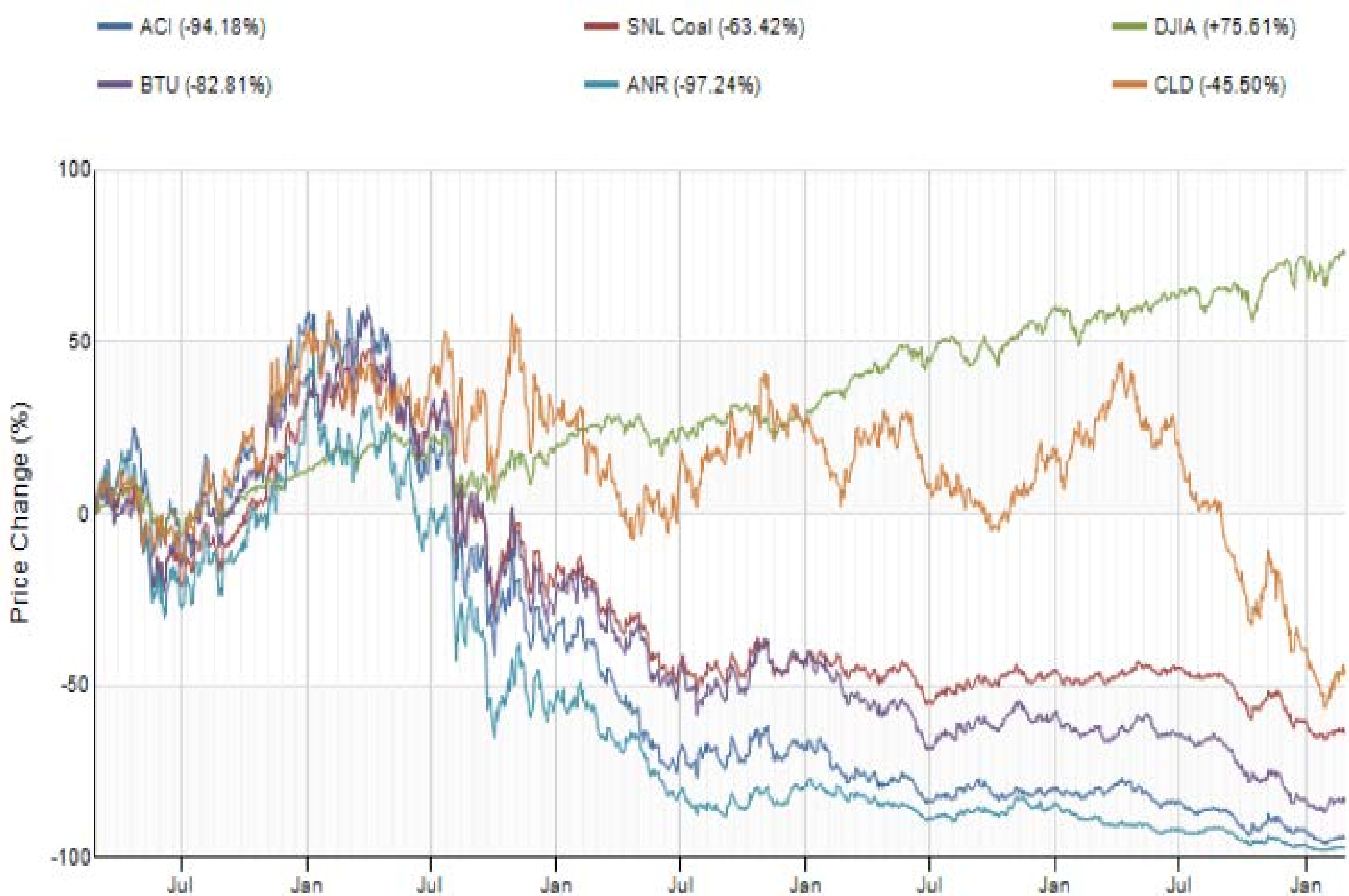
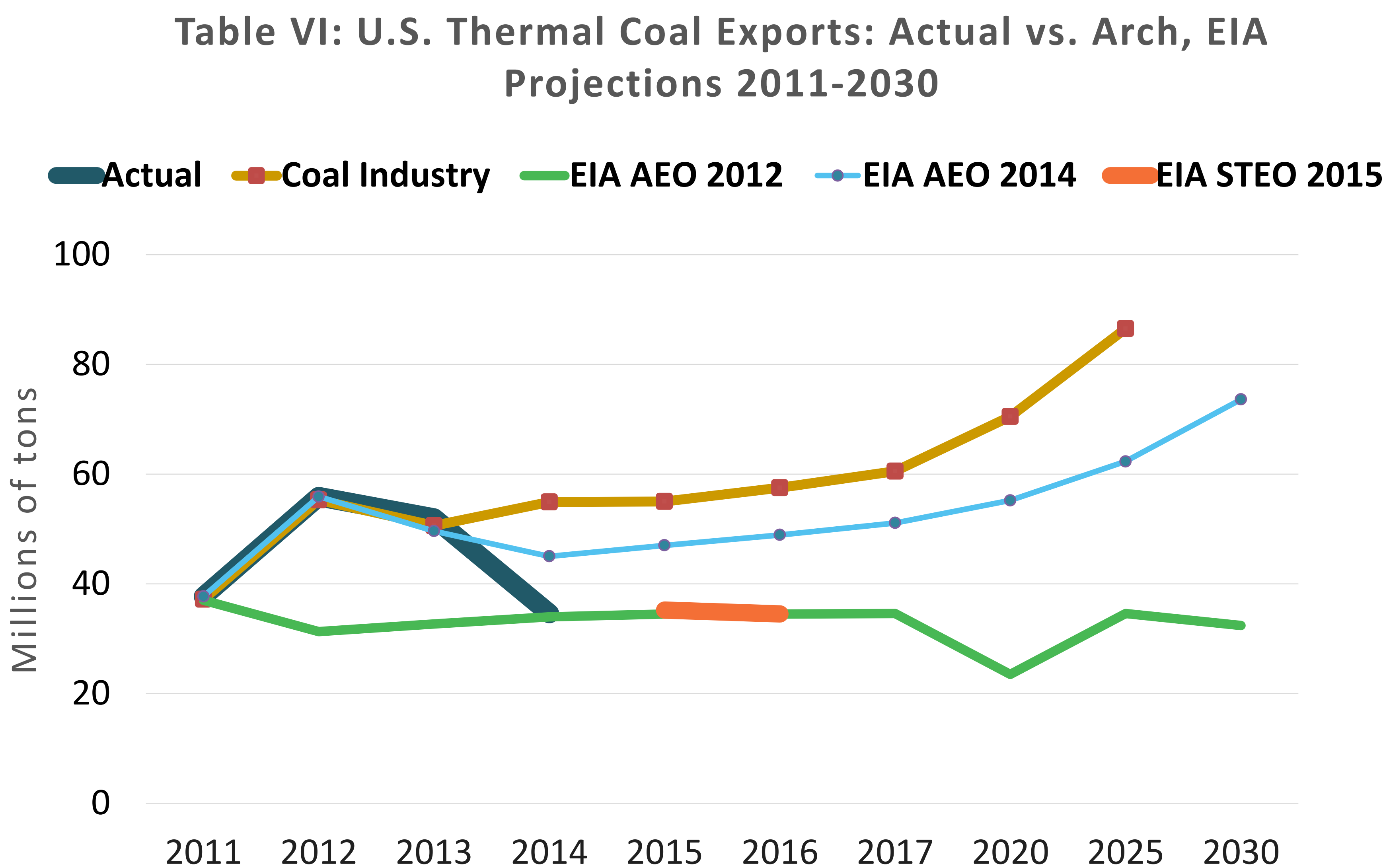
Leading Stock Prices Collapse

Arch Coal, Inc. - Price Change (%)



EXPORT POTENTIAL DIMINISHED

Actual Exports Decline, Estimates Following Market



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Observations

- Weak Markets Persist; Efforts to Continue
  - Keeps undermining credibility
  - Royalty regulation discussion
- U.S. Coal Producers acknowledging challenge
  - Now see India as bright spot – 800,000 thermal last year
  - Cloud Peak looking 2020 and beyond for growth
- Look for export projects as part of asset/liabilities in company workouts
- Investors should be concerned about losses from stalled/failed export investments.
  - Arch: $50 million liquidated damages; $50 million South Hilight; $5-$6 milion annually for Otter Creek and MBT Terminal.

COAL'S RESURGENCE

A Comeback Plan

- Republican control of Congress and Presidency
  - Control of regulatory process
- Manage liquidity until markets turn around
  - Cut costs, no capex, push out costs
- Greater Utilization of remaining fleet
  - Contingent on natural gas prices
- Technology
- Consolidation/Mergers and Acquisition
  - Recapitalize remaining mines, start new ones
  - Natural Gas – CONSOL, Alpha, Murray Energy

Final Observations

- 800 mtpa of coal burn annually is still a market
- Too many producers chasing too little demand
  - Mismanagement of shrinkage
- Market, technological and political disruption creates opportunity:
  - Why permit mines for production 30 years from now?
  - Why permit plant retrofits for unstable coal supply?
  - Why partner with companies & industry that might not be there?
  - Why invest in industry with large downsides?
  - Why permit ports for shipping 30 years from now?