Illinois Basin Trends: Implications for U.S. Coal Industry

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Illinois Basin Trends/Implications

• Illinois Basin: Trends, Projections and Risks

• What the U.S. Coal Industry Wants?
ILB annual increases, now 12% of nationwide coal production

ILB Annual Production (2008-2012)
(millions)
ILB increases to continue, by 2026 18% of U.S. production
Why production slated to increase?

• Loss of Central Appalachian coal
• More scrubbers
• Healthier Profit margins
  – Difficult right now: ILB coal prices in $40’s
  – Projections by 2018 – in mid $60’s.
  – Cost of production range: $32-$45/ton
• Modest Natural Gas price increases improve ILB position
What about ILB exports?

- Aggressive Private Sector estimates show tripling of exports out of ILB from 8 mt in 2012 to 25 by 2025 (Woodmac).
- EIA more modest national numbers (does not project ILB specific).
- SNL Coal Forecast shows sharp decline of thermal coal exports nationwide through 2022.
  - From 43 mt in 2012 to 22.4 mt in 2022.
Risks to ILB increase scenario?

• **Positive market share:** – 35%+ market share. 950 mt of coal consumed for electricity annually.
  – 2012 – 826 mt burned for electric generation.
  – Black and Veatch estimates 19% share for coal by 2037 compared to 37% today.

• **Positive Gas environment** - Natural Gas prices rise above $5 mmbtu permanently and rise for foreseeable future.
  – EIA corroborates
  – Do coal industry price demands remain competitive?

• **Robust Export Demand**
What does the coal industry want?

MARKETS AND POLITICS
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<th><strong>Fundamental Problem for Coal</strong></th>
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<td><strong>“Price Vice”</strong></td>
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<th><strong>Downward Price Drivers</strong></th>
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<td>• Natural Gas Prices force coal out of generation market</td>
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<td>• Other factors hurt mining</td>
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<td>• Demand curtailed in U.S.</td>
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<td>• Risks in export market – swing supplier status</td>
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<table>
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<th><strong>Upward Price Drivers</strong></th>
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<td>• Higher revenue needed to support stock value and expansion.</td>
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<td>• Higher domestic prices lose more market share.</td>
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<td>• Export market success still diminishes US domestic sales –core.</td>
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What does U.S. coal industry want?

- **Market**
  - Prolonged and sharp increase in Natural Gas Prices
  - Rising Global GDP and Coal Prices
    - Pro-coal Development Choices
- **Political Decisions to Improve Finances**
  - Government supported rate increases: regulated and public power
  - Approval of large plant retrofits at state level
  - Regulatory Retreat at national level on mining, air and water
  - Support for Exports
    - Ports
    - Limited Oversight: PRB Lease Policies
What does U.S. coal industry want?

US Regional Annual Coal Production Actual and Projected (1983-2035) (million tons)
Limit Oversight in PRB...and elsewhere

• 25 GAO Audits from 1970-1982 n PRB leases
• One GAO audit of BLM coal program since 1983, with only tangential relation to scandal issues.
• No publicly released inspector general reviews.
• No Congressional studies.
• No major reports from think tanks or quasi-governmental entities on FMV leasing/related issues.
• BLM reporting to Congress – misleading at best.
• BLM refusal to release promised public information on FMV leases
Limiting Oversight

• One year later
  – One independent GAO audit announced and underway.
  – One media expose (Thomson Reuters) on coal royalty payment on exports
  – Two Department of Interior Inspector General Reviews
  – DOI directed by Congress initiates an internal review.
  – Reference to potential criminal referral
  – To be continued....