

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

Coal Finance 2013

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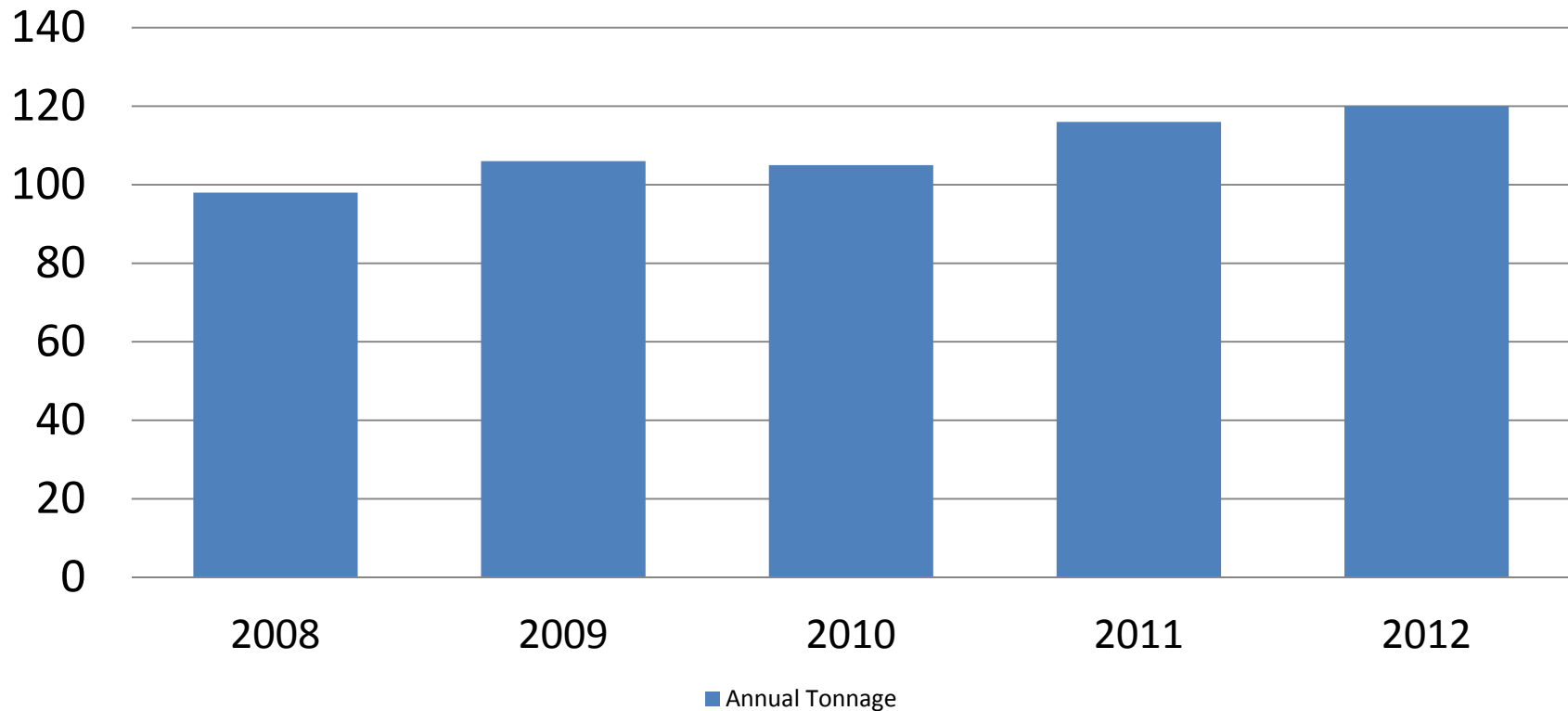
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Illinois Basin Trends/Implications

- **Illinois Basin: Trends, Projections and Risks**
- **What the U.S. Coal Industry Wants?**

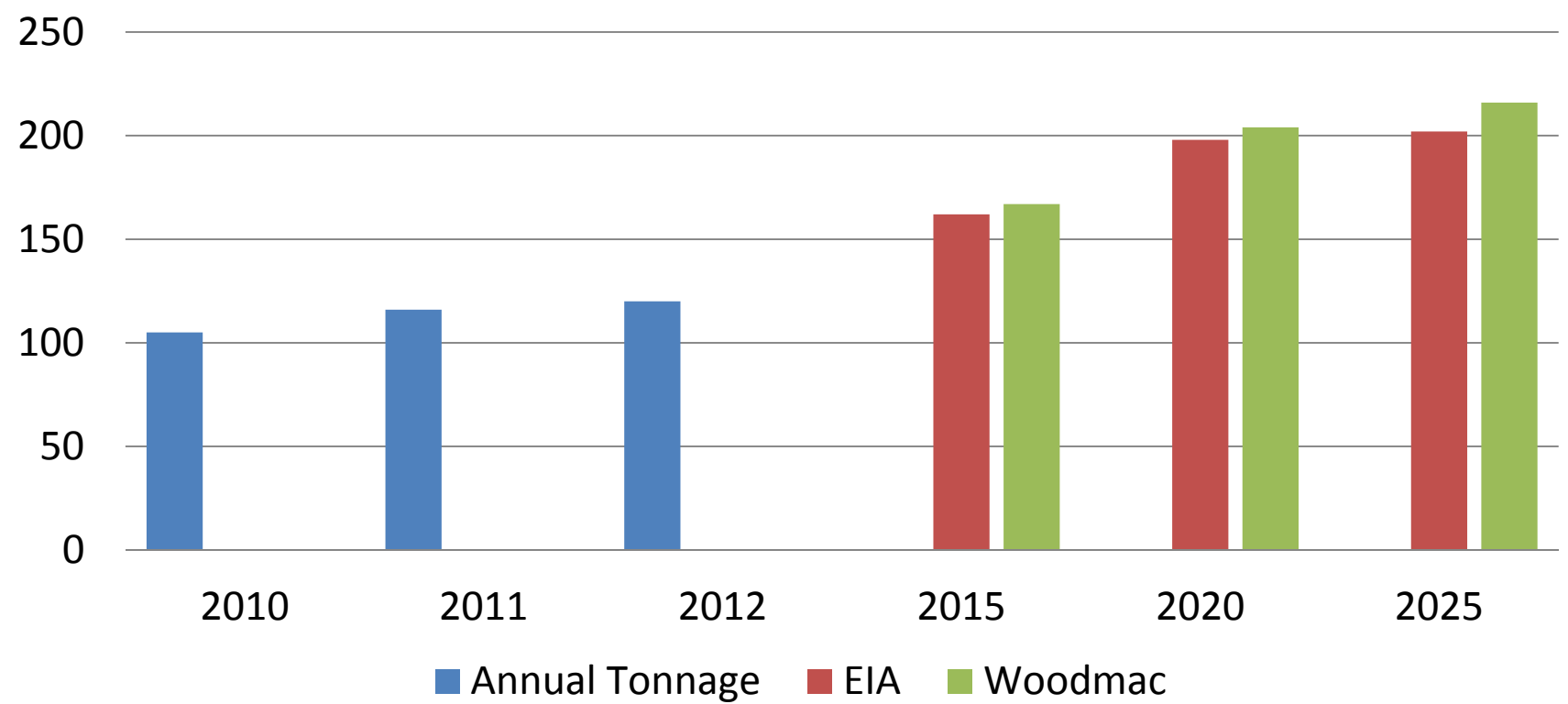
ILB annual increases, now 12% of nationwide coal production

ILB Annual Production (2008-2012)
(millions)



ILB increases to continue, by 2026 18% of U.S. production

ILB Actual and Projected Production (2008-2025)
(millions)



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

Fundamental Problem for Coal

“Price Vice”

Downward Price Drivers

- Natural Gas Prices force coal out of generation market
- Other factors hurt mining
- Demand curtailed in U.S.
- Risks in export market – swing supplier status

Upward Price Drivers

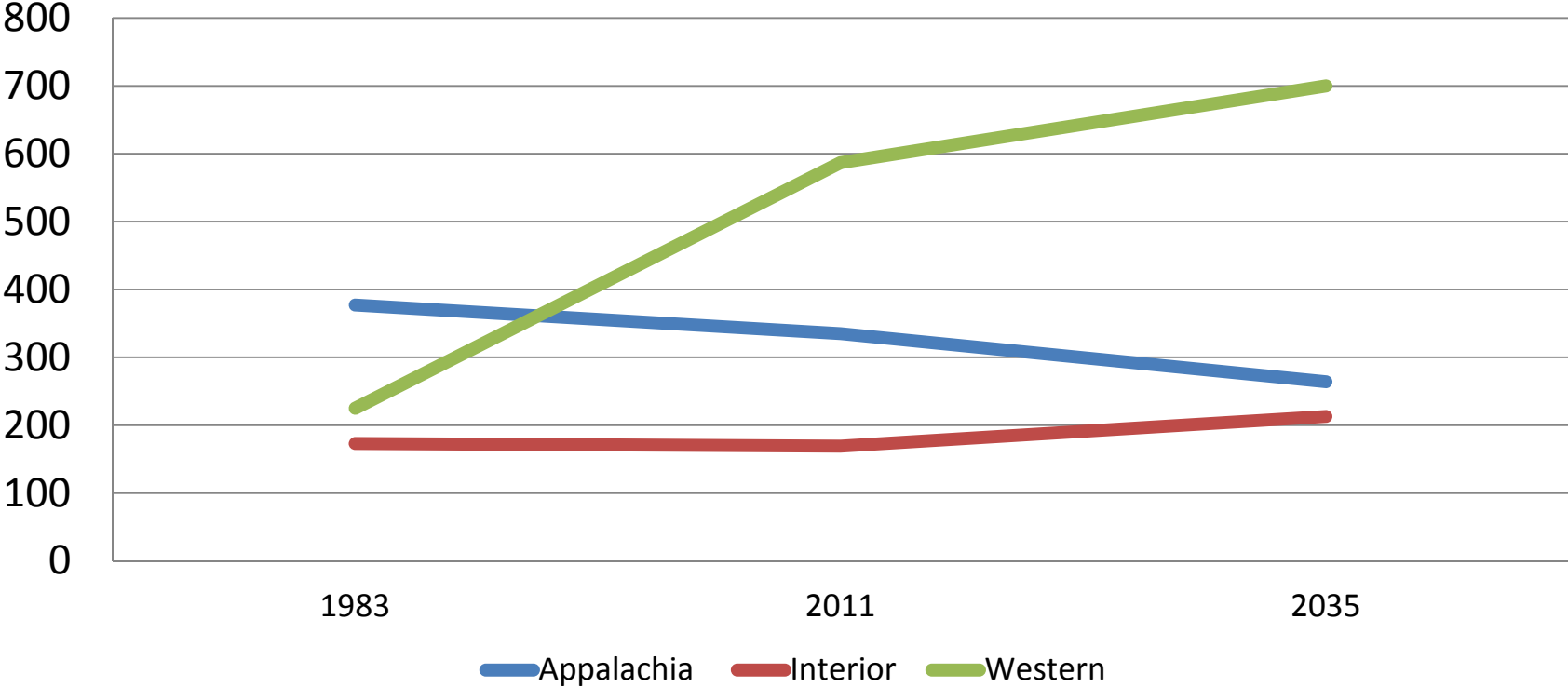
- Higher revenue needed to support stock value and expansion.
- Higher domestic prices lose more market share.
- Export market success still diminishes US domestic sales –core.

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....