Coal News and Markets

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December 20, 2006

Coal Prices *(updated December 8, 2006)*

This report summarizes spot coal prices for the business weeks ended November 10, 17, 26, and December 1. Based on weekly averages in Platts Coal Outlook, spot prices in all regions except the Powder River Basin (PRB) were unchanged in those five weeks, compared to prior week averages (see table and graph below). The PRB spot coal average declined slightly, from $10.15 to $10.05 per short ton in the week ended November 10, and lost another $0.10, reaching $9.95 in the week ended November 17. In the holiday-shortened week ended November 24 and the week ended December 1, none of the Platts spot prices posted by EIA changed.

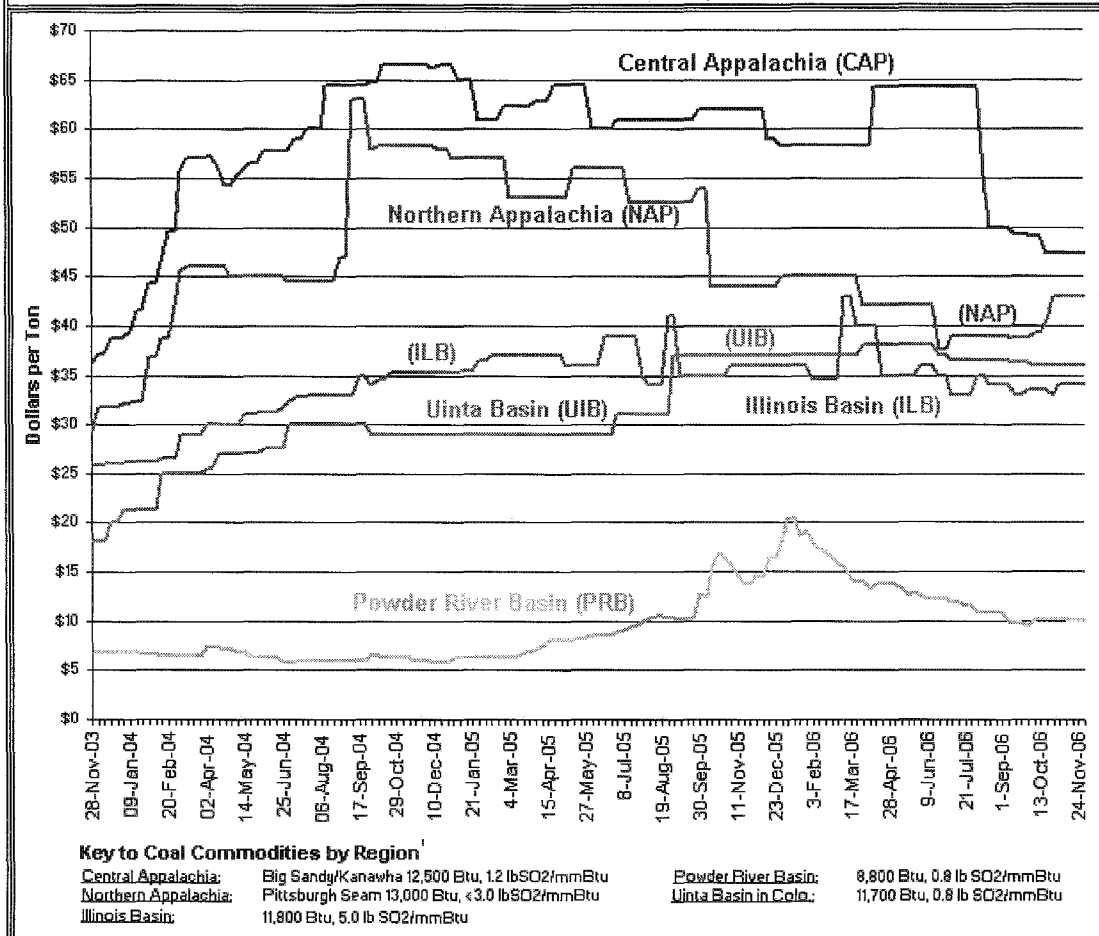
The Central Appalachia (CAP) 12,500-Btu rail coal tracked by the Energy Information Administration (EIA) remained at $47.25 per short ton and the Northern Appalachia (NAP) average spot coal price for 13,000-Btu coal did not change from $43.00 per short ton during the 5-week period. The average spot price for the 11,800-Btu Illinois Basin (ILB) coal held at $34.00 average per short ton during the period. The 11,700-Btu Uinta Basin (UIB) coal commodity continued at $36.00 per short ton; it last changed in the business week ended October 6.

The following average spot coal prices appear in the graphic below, for the previous and most recent weeks:

Week Ended	Central Appalachia 12,500 Btu, 1.2 SO2	Northern Appalachia 13,000 Btu, <3.0 SO2	Illinois Basin 11,800 Btu, 5.0 SO2	Powder River Basin 8,800 Btu, 0.8 SO2	Uinta Basin 11,700 Btu, 0.8 SO2
11/03/06	$47.25	$43.00	$34.00	$10.15	$36.00
11/10/06	$47.25	$43.00	$34.00	$10.05	$36.00
11/17/06	$47.25	$43.00	$34.00	$9.95	$36.00
11/24/06	$47.25	$43.00	$34.00	$9.95	$36.00
12/01/06	$47.25	$43.00	$34.00	$9.95	$36.00

http://www.eia.gov/cneaf/coal/coalnews/coalmar.html

Average Weekly Coal Commodity Spot Prices
Business Week Ended December 15, 2006



[1] Coal prices shown are for a relatively high-Btu coal selected in each region, for delivery in the "prompt quarter." The prompt quarter is the quarter following the current quarter. For example, from January through March, the 2nd quarter is the prompt quarter. Starting on April 1, July through September define the prompt quarter.
Source: with permission, selected from listed prices in Platts Coal Outlook, "Weekly Price Survey."
Note: the historical data file of spot prices is proprietary and cannot be released by EIA; see http://www.platts.com/Coal/. >Analytic Solutions>COALdat, or >Newsletters> Coal Outlook.

The PRB spot prices have not changed in three weeks and the other four Platts regional spot prices posted by EIA have all been unchanged for 5 weeks or longer. Bit by bit spot coal demand has been slowing since early summer. The slackened spot markets are now quiescent. A number of factors contributed to the present lull: concerted efforts that started this past spring to rebuild depleted coal consumer stockpiles with increased deliveries; the opening of shuttered and new mines following the prolonged high coal prices from mid-2004 through early 2006; a relatively mild summer in the service areas of most coal-burning electricity providers; and a mild autumn in most of the eastern United States. Coal stocks in the electric power sector equated to at 44 days' supply (125.6 MMst) as of the end of September. Coal-fired electric power generators were in a better position than in September in either of the previous two years; the most recent time that end-of-September coal stocks were as high as 44 days' supply was in 2003 (see Coal Inventories Section, below).

Coal Supplies *(updated December 11, 2006)*

Conference on Coal Supply Concerns: EIA attended the EUCI Conference, "Getting Enough Coal," held November 2 and 3 in Fort Lauderdale, FL. Most attendees came from the electric power sector. Others represented coal-consuming industries, one coal hauling railroad, energy analysts and consultants, and law firms and lobby groups involved in coal transportation service and rate issues, and active in pushing for new legislation or regulatory measures aimed at railroads. Among the group were representatives of some of the largest coal shippers in the United States.

One of the featured speakers at the conference was W. Douglas Buttrey, a Commissioner and former Chairman of the Surface Transportation Board (STB). At a conference focused on the concerns of shippers over the railroads' reliability and rising transport rates for coal, Mr. Buttrey introduced his talk by noting that the 1980 Staggers Act, which deregulated freight railroads, instructs the STB "to balance the interests of shippers and railroads." Mr. Buttrey noted, "I have yet to meet a business person . . . who really wants a level playing field . . . What that statement really means is . . . 'Take that other guy's advantage away from him and give it to me by government fiat.'" Having noted that his thoughts "do not necessarily reflect official policy of the Board," Mr Buttrey stated: "I firmly believe that to insert the government more into the relationship between shippers and their serving railroads will create more problems than it solves. It makes no sense to me to suggest that a government body in Washington, D.C., should be put in charge of working out the details of important business relationships between coal-fired electric utilities and railroads."

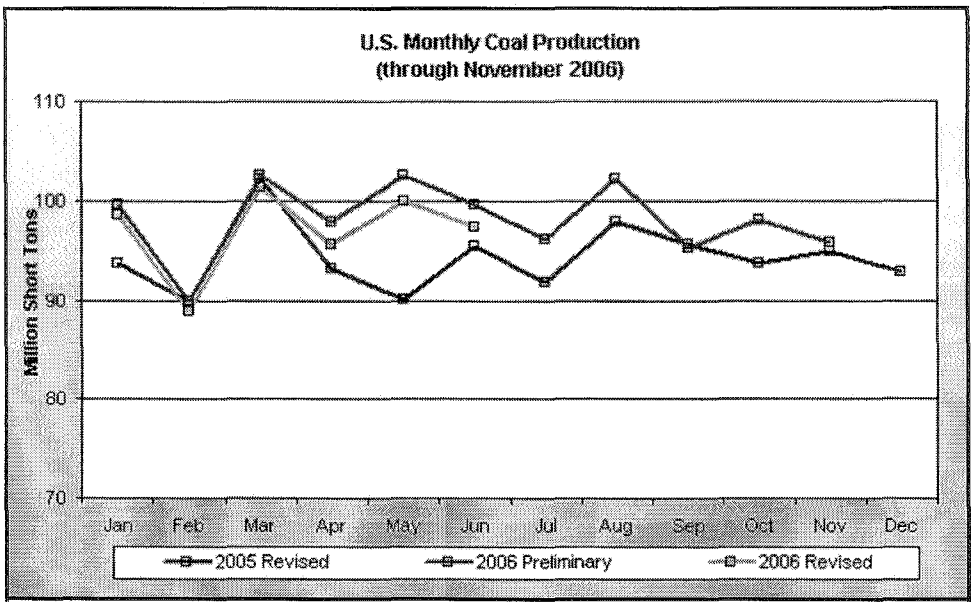
Addressing the fact that the many mergers approved by the STB "have reduced the total number of Class I carriers, and . . . the fact that many coal-fired electric utilities have just one serving railroad," Mr. Buttrey pointed out that "this consolidation has been an essential part of the process of the U.S. railroad industry returning to health from its precarious position in 1980." He warned that "To continue to talk about 'competitive access' and 're-regulation' is counterproductive. Stakeholders should insist that their spokespersons adjust their rhetoric to more productive ideas."

Acknowledging widespread complaints about constrained capacity in the railroads and their rationing of freight traffic capacity, Mr. Buttrey said that the railroads' common carrier obligation has not been changed – they are "still required to provide 'reasonable' service at a 'reasonable' price for regulated traffic. Of course, all relevant factors must be balanced when the Board determines what is 'reasonable' . . ." Those factors include demands on the carriers as well the needs of captive shippers, according to Mr. Buttrey. The STB should be considered a "court of last resort," only to be turned to when the carrier and shipper cannot work out a mutually agreeable solution.

Attendees challenged both Mr. Buttrey's premises and his conclusions, which accepted and projected further increases in rail shipping rates. His message to shippers, who had been protesting continuing rate increases, especially in new transportation contracts, was simply that the increases are justified. In answer to challenges, Mr Buttrey said that railroads have been revenue-inadequate for years and are just beginning to earn adequate revenues. Disagreements were strongly voiced in spirited discussion.

Following Mr. Buttrey's presentation, discussions and later presentations from shipper-oriented speakers brought forth proposals for legislated and regulatory remedies to force competition among the railroads, and possibly legislation to disband the Surface Transportation Board, rescind the railroads' anti-trust immunity, and to argue rate and service disputes directly in Federal courts.

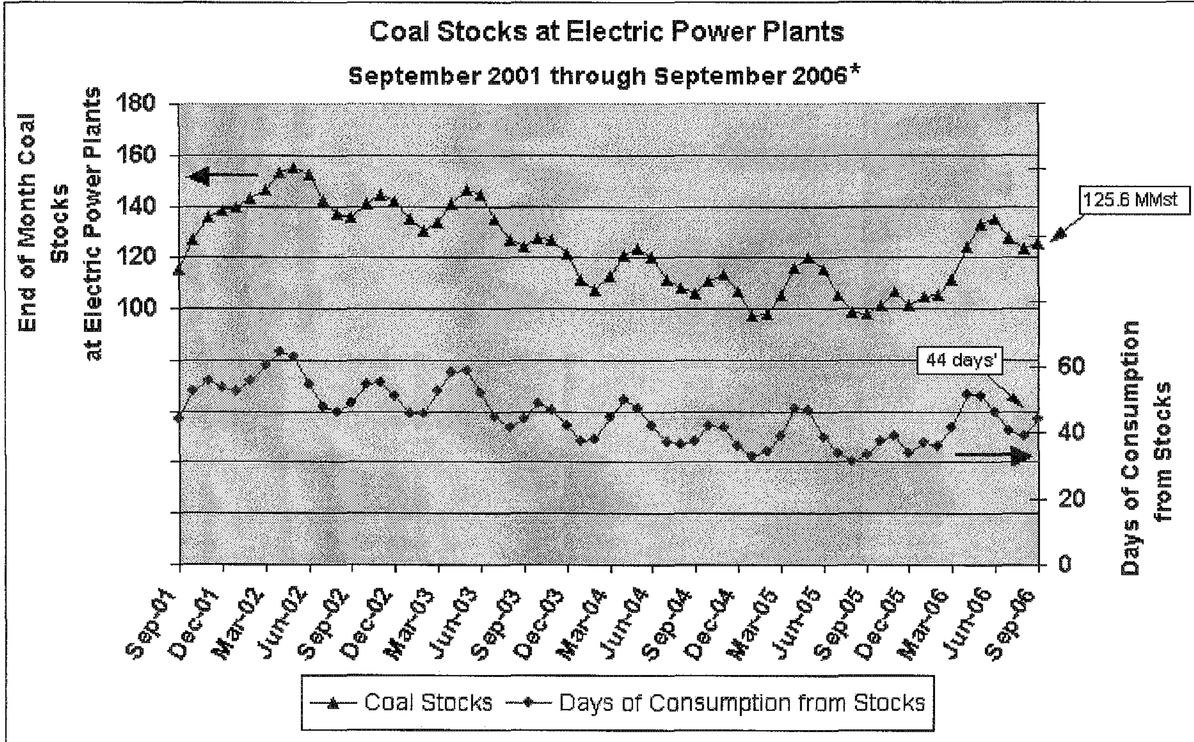
Coal Production - Estimated U.S. coal production for November 2006 was 95.8 MMst (see graph below). The November EIA estimate amounts to a 2.3 percent, or 2.3 MMst, decrease from the October estimate of 98.1MMst. Estimated production in November was slightly higher than 12 months earlier – 95.8 MMst versus 95.0 MMst in November 2005. Production for the first 11 months of 2006 was at record levels, 1,069.5 MMst, or 30.9 MMst ahead of the same period in 2006.



Note: This graph is based on MSHA-based final data all four quarters of 2005, revised production data from MSHA for January through June 2006, and preliminary EIA production estimates for July through September 2006.

The U.S. Monthly Coal Production graph (below) includes final production based on revised mine-level reports for all four quarters of 2005 by the Mine Safety and Health Administration (MSHA). It also shows revised production for January through June 2006 and preliminary EIA Weekly Coal Production estimates for June through September.

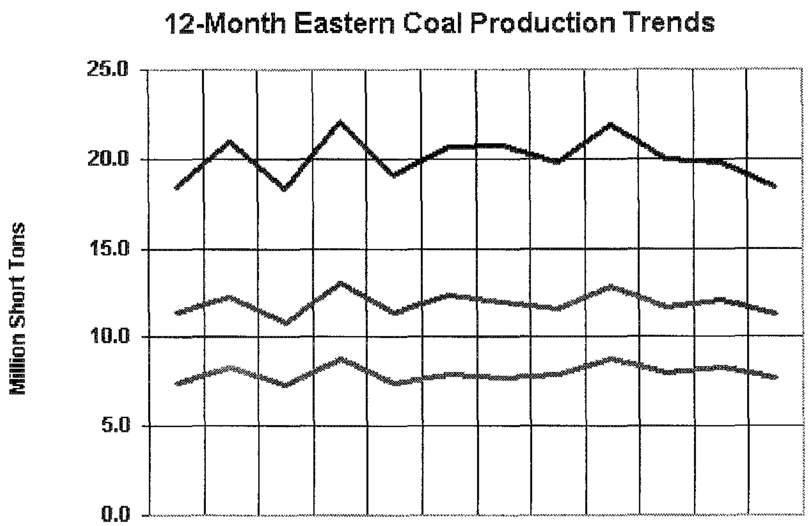
Coal Inventories - Coal inventories are monitored at plants that generate electricity (utilities, independent power producers, and industrial and commercial plants with generation capacity). The graph below excludes industrial and commercial plants from coal stocks and days of consumption because it cannot be known what portion of their coal inventories will be used to produce electricity. The number of plants is too small in many cases to ensure individual data confidentiality but the excluded plants constitute only 1 percent to 5 percent of coal-fueled net electricity generation. Thus, the graph below depicts those power plants that comprise the majority (95 to 99 percent) of net electricity generation fueled by coal.



Sources: Electric Power Monthly (EPM) Tables 2.1.A and 3.1; Electric Power Flash Tables 3.2 and 3.3.
* If latest month in Title is marked by " * " data source is Electric Power Flash early-release, which reports consumption for Total Electric Generation; those data are generally about 1 percent higher than later EPM consumption data for the Electric Power Sector alone.

In each month from December 2005 through June 2006, coal inventories at electric power plants had increased from prior month levels. Coal inventories increased by nearly 34 MMst during the 6-month period. On June 30, inventories started the summer 16.3 MMst higher than one year earlier. Further, during the relatively mild summer that followed, the net drawdown in coal inventories was only 11.9 MMst, in contrast to the summer of 2005 when the net drawdown was 21.7 MMst. During the summer, coal inventories declined in July by 7.7 MMst and by 4.1 MMst in August 2006, but by the end of September coal stockpiles were already showing net gains, up 2.3 MMst over August levels. Inventories at the end of August had been well above those of a year earlier when coal stockpiles at electric power plants were affected by last summer's rail disruptions. Inventories were widely acknowledged to be at comfortable margins at most power plants as winter approached. The exception may be some PRB coal customers that have been unable to rebuild to preferred levels, levels that are nonetheless higher than levels considered adequate in September of 2004, before the potential for PRB supply disruptions became a reality. As an indication of PRB inventories, see subbituminous coal in Figure 6.4 of the EIA Flash report.

Eastern mining capacity – Because CAP mines in recent years have been moving into more difficult mining conditions, mine operators have not been able to expand production significantly. Nonetheless, CAP is still the highest producing coalfield in Appalachia. After reaching a high of 281.8 MMst in 1997, CAP annual production decreased as far as 230.1 MMst in 2003. Production increased, however, by 2.4 MMst in 2004 and by 2.8 MMst (to 235.3 MMst) in 2005, or about 1 percent each year. In some months CAP still produces more coal than NAP and ILB combined (see graph below). In the first 9 months of 2006, CAP production was up 2.5 percent over the same period in 2005. First-round production estimates for the months of September, October, and November, however, each declined, confirming company reports of lowered third quarter production and fourth quarter projections. CAP production declined more severely than NAP and ILB production. This validated reports that declining coal demand and prices were cutting into already slim margins at those CAP mines with difficult mining conditions and high operating costs. Numerous temporary mine closures were announced.



	Dec-05	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06
Northern App	11.4	12.3	10.8	13.0	11.4	12.3	11.9	11.5	12.9	11.7	12.1	11.3
Central App	18.5	20.9	18.4	22.1	19.1	20.6	20.7	19.7	21.9	19.9	19.8	18.5
Illinois Basin	7.5	8.3	7.3	8.8	7.4	8.0	7.7	8.0	8.8	8.0	8.3	7.7

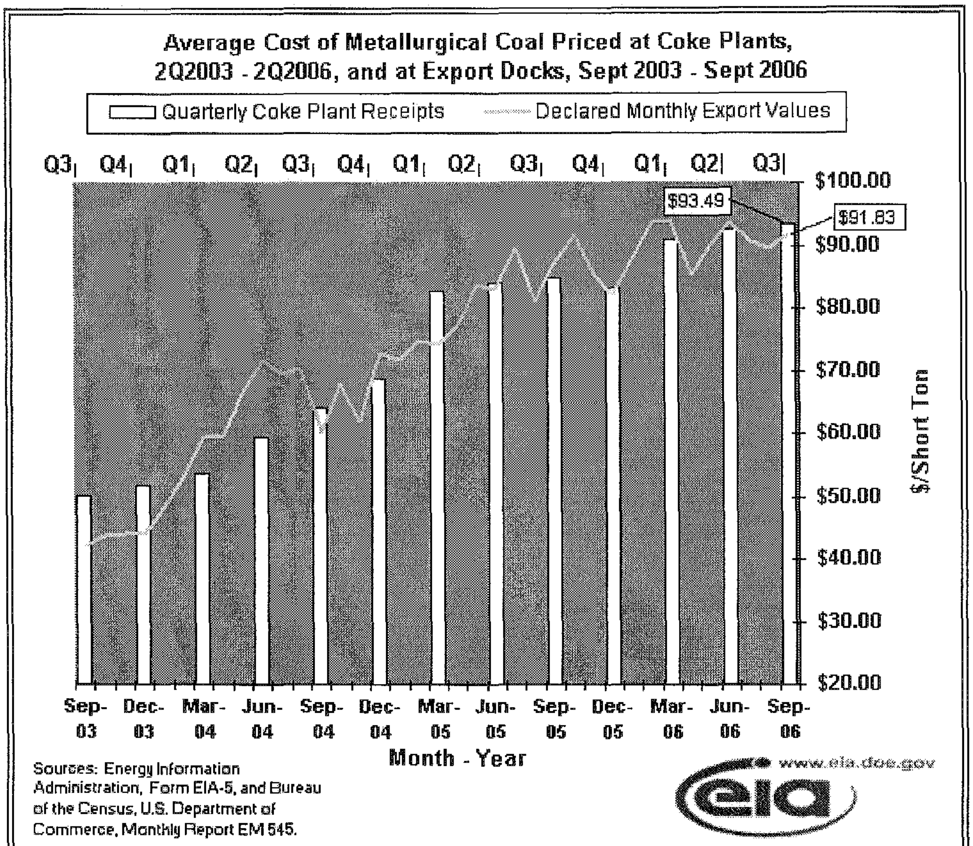
Note: July-November '06 data are preliminary.
(Million Short Tons)

Note: July-September '06 data are initial estimates. Jan-June data are revised. The previous version of this graph and table showed initial estimates for Jan-Mar and revised estimates in 2005. All revisions are based on Mine Safety and Health Administration (MSHA) quarterly mine-level surveys. The revised estimates for Jan-Mar, presented above, should have been shown previously. The 2005 data, though revised, did not contain minor changes resulting from MSHA's end-of-year final survey of all quarters' data. Those changes are incorporated in the Oct-Dec 2005 data above.

Future mining capacity in NAP and ILB is less constrained than in CAP. Deep but relatively thick longwall-minable coal is still accessible in NAP. Large reserves of relatively thick and flat-lying coal are available in ILB, although deeper on average than mined in the past. Additional coal production growth is expected between now and 2011, as many retrofit scrubbers become operational and mines begin burning more high-sulfur coals. Nonetheless, production in those two coalfields has been growing at impressive rates – 3.7 percent in NAP from 2004 to 2005 and 2.8 percent in ILB over the same period. For the first 9 months of 2006, NAP production was 3.4 percent ahead of the same period in 2005 and ILB production was up 3.2 percent. Like CAP production, NAP and ILB production dipped in September, but the combined production of NAP and ILB exceeded CAP production in both October and November, for the first time since December 2005.

Metallurgical Coal *(updated December 13, 2006)*

The graph below, and its downloadable data file include available data through September 2006. The third quarter price data for receipts at coke plants are not yet available. The data show quarterly average values based on coal cost data EIA collects from coke plants. They also depict monthly average values declared for met coal brought to ocean terminals for export, from U.S. Customs data. The values reported do include the costs of transporting the coal to the coke plants or export points.



Download Met Coal data files. (Excel Format)

The second quarter average price at coke plants showed a small increase of $1.63 per short ton in delivered price of metallurgical coal, from $91.09 to $92.72. The monthly average prices for coking coal transported to export docks have stayed within a range of $85 to $94 throughout 2006, and leveling out between $89 and $92 from July through September. Unlike many prices reported in coal newsletters, the values below are based on surveys of actual shipments. These prices are about 2 months old, however, when they are first available. Because the prices are averaged and include met coal shipments from multi-year contracts and traditional 12-month contracts - and not just spot shipments - variances are less extreme than in some spot price reports. Further, it cannot be known from the price data how much of any movement in delivered prices may reflect actual changes in coal priced at the mine versus changes in eastern U.S. rail transportation rates.

Metallurgical coal prices have continued to strengthen since September 2003 and the shock to international coal supplies that occurred in 2004 when exports of Chinese steam coal and metallurgical coke were curtailed. In 2006, met prices have climbed at a slower rate but have reached new average highs amid reports of shortages of steam coal and high met coal demand in China, India, growing coal demand in other East Asia industrial economies.

Accounts of actual individual transactions are relatively few in October and November as the first quarter, January through March, is the period traditionally when most iron and steel producers contract for met coal for the next year or two. Reports that have been seen are mixed for recent met coal price agreements. Jim Walter Resources, reporting on its third quarter sales of Alabama met coal, sold 1.6 MMst of met coal at an average price of $105.48 per short ton, priced at the mine area. That volume is a substantial increase over the 0.7 MMst it sold in 3Q2005, when the coal fetched $108.28 per short ton (Platts Coal Outlook, November 13, p 8.) Third quarter 2006 sales figures for metallurgical coal released by Alberta-based Grand Cache Coal cited 0.3 MM tonnes metric sold for an average $C103, or about $US106 per short ton at the mine (Platts Coal Outlook, November 20, p 9). On the other hand, CRU Monitor, which advises commodity dealers, buyers, and investors, reported in November that U.S. met coal producers that have concluded supply agreements for 2007 purchased premium high–volatile met coal for $69 to $73 per short ton, mid-volatile met coal for about $80 per short ton, and low-volatile met coal for $74 to $82 per short ton (CRU Monitor, Steelmaking Raw Materials, November 2006, p 3).

Coal Transportation *(updated December 13, 2006)*

A Bear Stearns survey of more than 1,000 shippers confirmed what coal-fueled power plant operators believe and the railroad industry says is necessary – that rail transportation rates are rising and expected to continue. Railroad customers, including utilities and coal producers, were surveyed by Bear Stearns analysts and said they expect "strong" rate increases continuing into 2007, driven by "ongoing tight rail capacity and expectations for continued strong rail freight demand." The survey is done quarterly and encompasses a cross section of freight shippers (not only coal). At the time of the survey, third quarter operating costs were not complete but respondents were expecting average rail rate increases of 4.2 percent for the quarter. The second quarter expectations had been for 4.4 percent increases. Rail customers also noted that railroad service improved in the third quarter, especially for CSX customers (Coal Outlook, November 27, pp 8-9.)

Presentations and discussions at the EUCI Conference, "Getting Enough Coal," on November 2 and 3, made it clear that as shippers of large volumes of coal most attendees were not impressed with the Surface Transportation Board's (STB) proposed new large rate case review process, released several days earlier on October 30. As long-time critics of the existing process, the attendees, who were almost all shippers or sympathetic to shippers, felt the proposed changes would make the process worse. Since then, some railroads and an electric co-operative have also announced opposition to the new process, apparently because the new rules could apply to pending as well as future rate cases. Burlington Northern Santa Fe, CSX Railroad, and Norfolk Southern filed separate appeals in the Federal appeals court for the District of Columbia on November 13 and 14. Basin Electric Cooperative of North Dakota had filed on November 9 in the Federal appeals court for the 8th District, in St. Louis. Sources close to the case say the plaintiffs are aggrieved because the STB put on hold plaintiffs' appeals that were months or years old while developing its proposed new review process, and because that process would now cause them further expense to argue and defend their rate cases at the STB under the new rules, further delaying the STB decisions. Echoing sentiments expressed at the EUCI conference, Bob Szabo, Director of Customers United for Rail Equity said coal shippers believe that the STB's new rules "will make it virtually impossible to win a rate reasonableness case at the STB" (Coal Outlook, November 27, p10).

Previous Coal News and Markets Reports

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