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Komatsu control and automation engineers test longwall visibility technologies at the company’s Franklin, Pennsylvania, US, facility to advance remote operation capabilities for Joy longwall systems. Joy complete longwall systems represent the ultimate solution for high-production longwall mining.

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The sun made a (brief) disappearance last week in the US’s first coast-to-coast total solar eclipse in nearly 100 years. With a global news coverage, much attention was designated to the 2017 solar eclipse with millions of Americans stepping outside and gazing upward to catch a glimpse of the moon engulfing the sun. But, what is less publicised (in relation to the sun) is the growing use of the sun for energy – particularly in China.

China – better known for its coal – is now the world’s largest renewable energy investor. The country has been embracing clean energy and recently has made headway in the development of renewable energy projects. Last year, China made major foreign investment into renewables, with Chinese company investment in, for example, an offshore wind farm in Germany and a solar power project in Egypt.

Most recently, a new floating solar farm, constructed on a former coal mine, has come online in the city of Huainan, in China’s eastern Anhui province. Manufactured by Sungrow Power Supply, it is the world’s largest floating solar farm and has the potential to generate 40 MW of power, enough to power a small town.

Floating solar farms can be very beneficial for a number of reasons: as well as taking up less land, the panels can work more efficiently on water compared to land as the water helps to keep the surface of the panels cool.

This solar plant development probably doesn’t come as a surprise to many: China has more solar capacity than any other country. And it continues to make major investments in renewable energy and technology – both domestically and globally. At the start of this year, China announced it would invest US$301 billion in renewable energy by 2020, and transition away from coal-fired power. The new floating solar farm is part of this strategy: at the rate the country is investing, it may not be the world’s largest for very long.

But don’t be alarmed; despite this investment into alternatives, coal will remain the cornerstone of the Chinese – and wider Asia – economy for many years. According to BMI Research’s Q3 2017 China Power Report:

“Coal will remain the dominant fuel source for power generation in the region, as governments and project developers in Asia capitalise on the widespread availability and relative low cost of coal. We are seeing project pipelines for coal-fired power capacity increase across a number of countries, including Thailand, Indonesia, Pakistan and the Philippines. While we expect some of the planned projects to be stalled on environmental grounds, coal will remain the largest single power source for the Asian power market.”

While the coal power industry is competing with renewables, the coal mining industry could benefit from renewable power. In this issue of World Coal starting on p. 42, Dr Thomas Hillig outlines the potential for renewables as alternative energy supplies at mine sites. With falling costs in renewables – as well as a smaller environmental footprint – making solar and wind more attractive energy alternatives, a number of mines are beginning to integrate renewables as part of their energy source. Dr Hillig discusses how Swedish company Ripasso Energy’s hybrid solution, the Ripasso Stirling Hybrid, can help achieve onsite baseload power, through combining concentrated solar power and fuel.

Investment into renewables seems likely to continue, particularly with ambitious investment targets from China; but will renewables sink or swim in the mining industry?
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- Eliminated NOx FUMES
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BANGLADESH Japanese consortium to build coal plant and port on Matarbari Island

A three-party consortium of Sumitomo Corp., Toshiba Corp. and IHI Corp. have signed an EPC contract with coal power generation company Bangladesh Ltd for the construction of an ultra-super critical coal-fired thermal power plant and port on Matarbari Island in southeastern Bangladesh.

The project will be financed under Yen Credit by the Japan International Cooperation Agency (JICA) and the total cost of the project will amount to 500 billion yen, which is the largest amount for a single contract financed by JICA. The construction is scheduled to begin in August 2017 and completed in July 2024.

Shoaling coast makes large vessels to tranship cargoes to smaller ones offshore before entering any ports in Bangladesh. Once the deep sea port is constructed, however, it will enable deep-draft vessels to directly approach the port. Therefore, the construction of this port is expected to play a key role in the industrial development of the Matarbari area.

Sumitomo Corp. will be responsible for civil work and auxiliary equipment, as well as for port construction, including dredging works, together with Japanese subcontractors, such as Toshiba Plant Systems & Services Corp. and Penta-Ocean Construction Co. Ltd.

Toshiba will supply and install the steam turbines and the generators, while IHI will be in charge of providing and installing the boilers. The project will feature Japanese technology and know-how, and serve as a typical example of the Japanese government’s Quality Infrastructure Partnership Initiative. Using Japanese funding and technology to meet the urgent need for electric power in Bangladesh, the project will help drive the country’s industrial and economic development.

RUSSIA SUEK orders CAT armoured face conveyor for second longwall face

Russia’s largest coal producer, Siberian Coal Energy Company (SUEK), recently placed an order with the regional Cat® dealer, Vostochnaya Technica LLC (VT), for a complete armoured face conveyor (AFC) system to equip the company’s second 400 m longwall face. The longwall will operate in the mine named after V.D. Yalevskyi, Yalevskogo Seam #52 (formerly Mine #7), with commissioning planned for early next year.

In April, SUEK commissioned the first 400 m (1300 ft) longwall face in Russia in the same mine, but in Seam #50, formerly called Kotinskaya. Previously, the widest longwall face in Russia was 300 m (980 ft). The equipment for the face extension and the upgrade of the AFC system was manufactured by Caterpillar and assembled and commissioned by VT.

The mine is located in the Kemerovo District in Siberia where SUEK operates 10 longwall faces in their underground coal mines and two opencast coal mines. The longwall systems at the two faces average cutting heights of approximately 4 m (13 ft).

The new system for Yalevskogo consists of a Cat AFC PF6/1142 with three drives of 1000 kW (1341 hp) each and Cat CST65 gear boxes, a Cat PF6/1342 beam stage loader with a Cat SK11/14 crusher and a belt return unit. The AFC system will go into operation with Cat roof supports.

Cat PF6 face and entry conveyors are especially designed for high-performance longwalls. With its trough concept and durable pan design, the Cat AFC PF6 face conveyor is particularly suited for applications in longwalls with extended face length and for panels with coal reserves of 10 million short t and more. The innovative design of the PF6 line pan allows the separation of wear parts and structural parts. Very hard, wear-resistant materials are used for wear parts, while the structural parts are made of high-strength steel.

The recent order marks continued growth of SUEK’s Cat longwall equipment. The mining company currently operates four longwall faces with Cat roof supports, and it has nine complete Cat AFC systems. In 2016, SUEK produced more than 105 million t (116 short t) from its 14 longwall systems and 14 opencast mines.
USA  Department of the Interior repeals coal valuation rule

To create more workable oil, gas and mineral valuation regulations and avoid costly litigation, the US Department of the Interior has repealed the Consolidated Federal Oil and Gas and Federal and Indian Coal Valuation Reform Rule (Valuation Rule), which, according to the department, had created confusion and uncertainty regarding how companies report and pay royalties on energy and other mineral resources from federal onshore and offshore areas and American Indian lands.

According to the department, the repeal of the Valuation Rule, published in the Federal Register and effective on 6 September 2017, will provide certainty and clarity to the regulated community by continuing to require compliance with lawful and well-known oil, gas and coal regulations in force for more than a decade. These regulations are easy to understand and provide certainty to industry and the Office of Natural Resources Revenue (ONRR) that correct payment has been made.

“Repealing the Valuation Rule provides a clean slate to create workable valuation regulations,” said Secretary of the Interior Ryan Zinke. “We are committed to working closely with stakeholders and the newly chartered Royalty Policy Committee to explore options for future rulemakings and to avoid the structural defects that were found in the previous rule. The Department and the Office of Natural Resources Revenue remain committed to collecting every dollar due. These are taxpayer and American Indian assets, and the public and American Indians deserve an accurate accounting and valuation.”

INDONESIA  Construction of Kalselteng-2 coal plant begins

Itochu Corp. has concluded an EPC agreement for the construction of the Kalselteng-2 coal-fired power plant with Indonesia’s state-owned electric power company under the consortium that Itochu formed with major engineering companies in Korea and Indonesia, namely, Hyundai Engineering Co. Ltd and PT. Truba Jaya Engineering.

The contract amounts to approximately US$400 million. The construction of the project has commenced and is expected to be completed in 2020.

This is an expansion project of the existing coal-fired power plants (Units 1 to 4, 65 MW x 4 plants) located in the South Kalimantan Province of Kalimantan Island, with the construction of Units 5 and 6.

The project has committed to reducing its environmental impact by using high efficiency equipment, which is comprised of boilers manufactured by IHI Corp. and steam turbine generators manufactured by Fuji Electric Co. Ltd.

In support of Japanese exports, Japan Bank for International Cooperation and MUFG’s banking arm, The Bank of Tokyo-Mitsubishi UFJ Ltd will provide loans (approximately 16.9 billion yen and approximately US$89 million) to PLN as to finance the project.

The loan provided by BTMU will be covered by insurance from Nippon Export and Investment Insurance.

In Indonesia, the demand for electricity is increasing constantly alongside a rapidly growing economy. In order to meet this increased demand, Indonesia has been promoting a ‘35 GW Power Plants Development Plan’, which includes the construction of the Kalselteng power plant.
Coal processing remains at the core of our business. MMD have continually developed a range of innovative machines – from high capacity Sizers that reduce ROM to a conveyable size, through to segmented tooth machines designed for specific product sizes in the coal preparation plant. Manufactured in India, the latest MMD Twin Shaft MINERAL SIZER™ is a Light Duty 625 Series machine specifically optimised for coal processing.

In both underground and surface applications, MMD’s Sizer technology delivers high capacity, versatile and compact machines that size as well as crush materials. Shaft dimensions and teeth designs can be customised for each application, and the churning action of the twin shafts is ideal for blending material at high throughput rates.

Increased wear life and low level power consumption enable operators to attain their efficiency and productivity goals whilst achieving a greener approach to mining.

Discover how we can deliver the complete sizing solution for you – wherever you are.
A round-up of news from coal development projects around the world.

**Australia**

**Whitehaven Coal**

Mastermyne Group has been awarded a Roadway Development contract at Whitehaven Coal Ltd’s Narrabri mine using place change methodology.

The company has been engaged to undertake roadway development in the gate roads, including initial set up work and conveyor installations.

The project will commence mobilising from October 2017 and the scope includes the full management and supply of equipment and skilled personnel to execute the works under the contract. The company will deploy a continuous miner and ancillary development equipment from its own fleet for the project.

**Stanmore Coal**

Stanmore Coal Ltd has reported an increased JORC reserve for the Isaac Plains complex (consisting of Isaac Plains mine and the Isaac Plains East project).

As a result of recent technical studies, the total JORC ROM reserves for the Isaac Plains complex have increased by 8% from 15.2 million t to 16.4 million t, even after depletion from mining of 1.28 million t since the last statement in February 2015.

The updated JORC reserve for the Isaac Plains complex confirms the total opencast mining life from the initial pit shell for Isaac Plains mine of three years, to a current opencast life of 12 years through to 2029. The change in ROM reserves at Isaac Plains mine includes the depletion of reserves from opencast mining (1.28 million t) between February 2015 to 31 March 2017.

**TerraCom**

TerraCom through its wholly owned subsidiary Orion Mining Pty Ltd (Orion) has commenced coal production at Blair Athol. This has occurred on schedule and the operation will continue to rapidly ramp up as planned to approximately 2 million tpy annualised run rate in 4Q17. Initial coal sales will meet product specification as a bypass crushed thermal product. The coal production has been in conjunction with bulk earthworks required for the rehabilitation of the previous operations towards a final landform as defined in the Environmental Authority. The dragline overhaul is continuing as planned with the dragline being placed back into operation before the end of the month. Similarly, the recommission of the CHPP continues on plan with a scheduled recommencement mid October 2017.

**Canada**

**Allegiance Coal**

The staged production pre-feasibility study (PFS) for the Telkwa metallurgical coal project is complete, and Allegiance Coal believes it has achieved a material reduction in the Stage 1 start up capital, originally estimated at US$851 million, and now is currently estimated at US$36 million. SRK Consulting Inc., who prepared the PFS, have again been retained to prepare the Stage 1 PFS for the company.

The Stage 1 PFS is the blueprint for the commencement of development of the project, and will form the basis of the company’s project description to the Ministry of Energy & Mines, in its Sub-EA permit applications, in its engagement with First Nations, and in its consultation with other key stakeholders. Given the ease and speed at which Allegiance Coal was able to complete the PFS review, the company can now expedite completion and delivery of the Stage 1 PFS. Previously the company had announced that the Stage 1 PFS would be completed and delivered in 1Q18.

Directors have now announced that the results of the Stage 1 PFS will be completed and delivered to the market on or before 30 September 2017.

**Poland**

**Prairie Mining**

Prairie Mining has secured formal approval of the spatial development plan (rezoning) for its 100% owned high-value ultra-low ash semi-soft coking coal (SSCC) Jan Karski mine in the Lublin Province.

Following completion of community consultation and submission by Prairie of all applications required to change the local spatial development plan to effect the rezoning of land for mining use, the Gmina (Municipality) of Siedliszcze granted the approval, which will allow the construction of the Jan Karski mine site.

The spatial planning approval process was conducted in parallel with approval by Poland’s Ministry of Agriculture for the rezoning of 56 ha. of agricultural land to be designated for industrial (mining) purposes. This 56 ha. is in the Kulik area where the Jan Karski mine shafts and major surface facilities will be located.

Prairie remains on track to have its full application for a Mining Concession submitted for Jan Karski in the coming months.

**USA**

**Paringa Resources**

Paringa Resources has begun excavation and site development works at the Poplar Grove mine site area and remains on track for first coal production 12 months from the start of construction.

The 2.8 million short tpy mine is located immediately south of the fully-permitted 3.8 million tpy Cypress mine, which both will have low-cost barge access to the Green River and utilities located within the Ohio River market.
Coal preparation plants are now achieving fine coal recovery they once thought to be impossible. And the proof is in the plants, where managers and operators are seeing an increase in their recovery as well as their profits after adopting Somerset Coal’s Sub325® fine coal recovery system. Our innovative technology is capturing up to 95% of minus 325 mesh coal at a marketable moisture level that had previously been forced to recirculation or washed away to refuse. And the best part — there’s no cost for the plant.

“I thought the recovery they said they were going to get was too good to be true, and then we tested it, and it was what they said.” ALLEN LEGRAND, Plant Manager, Robindale Energy Services

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Coal buyers, especially in Europe, are under growing scrutiny from both civil society organisations and governments. They all want to be able to reassure consumers and end-users that the coal being burned in their power plants, used to manufacture their steel or produce their cement comes from ‘responsible’ mines. And in doing so, they want to know that the entire coal supply chain from producer to end-user is sustainable.

Sustainable supply chains are not just crucial to the preservation of our environment, they are also good business. And no supply chain is more complex or criticised than that of mineral products. Mining is a heavily criticised industry associated with human rights violations, child labour, environmental degradation, safety incidents, etc., but mineral products are also vital to our societies. They are present in everything we use and necessary for even renewable energy. Your cell phone contains gold, platinum, tin, tungsten to name a few; windmills are made of iron ore and cobalt; solar panels require bauxite. Coal is under even more scrutiny because of its direct link to climate change. But we need to look beyond that aspect of the debate around coal, and producers and buyers alike need to focus the attention on the way coal is mined and transported to its end-users. Identifying and managing social and environmental risks in the supply chain is a business imperative.

Bettercoal was created to deal with just that concern: ensuring that the coal purchased by its members comes from mines committed to a continuous improvement process in their operations. The enabling system created by the organisation insists on the principle of continuous improvement as opposed to simple compliance. At the core of the initiative is the Bettercoal Code, which covers ethical, social and environmental principles and provisions grouped into four critical areas: general implementation expectations (legal compliance, policies and systems), business ethics (disclosure, bribery and facilitations payments), human rights and social performance (human rights, workers’ rights, community engagement), and the environment (environment, pollution prevention, biodiversity).

Bettercoal assesses performance of coal suppliers against the ten principles of its code and jointly develops a Continuous Improvement Plan, the summary results of which are shared with its members. These members take into account the results of the assessments in their purchasing decisions and due diligence processes. The outcome is a re-enforcing loop of improvement and recognition in the coal supply chain.

Through its actions over the last couple of years, Bettercoal has engaged with mines in Colombia, Russia, the US, South Africa, Poland, Germany, Indonesia, Australia, Norway, Kazakhstan and the UK. Bettercoal members purchase coal from across the globe and therefore connect with mine operators in many different countries. While the initiative’s long-term goal is to engage with all its members’ coal suppliers, the organisation requires a pragmatic approach that allows the allocation of limited resources to its priorities. Therefore, Bettercoal’s priority focus has been on the large coal exporting nations of Colombia, South Africa, Russia and of course the US.

Murray Energy prides itself in being one of the safest and most environmentally responsible coal producers in every region in which we operate. We view the Bettercoal Assessment Process as a way to streamline the external audit process for prospective buyers and to demonstrate our commitment to continuous improvement in all areas of our business. Murray Energy is the largest privately-owned coal company in the US, producing approximately 72 million tpy of high-quality bituminous coal, and employing approximately 6000 people in six states. Bettercoal is very happy to see Murray open the way for what it hopes will be more site assessments of American coal producers. As Gary Broadbent explained: “Murray Energy prides itself in being one of the safest and most environmentally responsible coal producers in every region in which we operate. We view the Bettercoal Assessment Process as a way to streamline the external audit process for prospective buyers and to demonstrate our commitment to continuous improvement in all areas of our business.”

America provides a significant amount of coal to European buyers, and as the initiative seeks to expand its reach to Asian buyers, participating in the Bettercoal Assessment Process could enable American coal producers to gain not only in reputation, but also in competitive advantage.

Coal will continue to be challenged as the world transitions to low carbon sources of energy. Producers and buyers should continue to work closer together to develop a shared understanding of the risks and build a system where demonstrating continuous improvement in practices will become a key purchasing decision factor, as important as price.

About the author
Since January 2017, Anne-Claire Howard has been the Executive Director of Bettercoal, the only global responsible coal supply chain initiative promoting continuous improvement in mining practices. Previously, she worked in the International Finance Corporation’s Sustainable Mining Practice, in Royal Dutch Shell’s LNG business and in Extractive Industries Governance.
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Longtime observers of the coal markets are typically concerned with three primary questions:

- Where are we?
- Where were we?
- Where are we going?

It is sometimes hard to fathom that a career can be built around answering those simple questions. This article provides an analysis of the massive shift that occurred in the US coal sector between July 2016 and June 2017, the impact that President Trump has had and will have on the US coal sector, and how the next few years might play out. Despite the obvious recovery depicted by these ‘before/after’ snapshots of prices and key supply and demand inputs, they do not do justice to the epic action film that was witnessed over those twelve months.

In June 2016, the author of this article, Stephen Doyle, published the now prescient title, “Are You Ready for an Abrupt Shift in the Coal Sector?” In short, a myriad of inputs had been in play over the course of three years:

- An across-the-board suspension of expansion CAPEX along with mine closures and cutbacks around the globe.
- Most of the surviving mines were geared toward achieving the lowest possible unit costs by operating at maximum output, which resulted in a precarious supply chain.
Many open cast mines were high-grading their reserves in order to remain competitive. Asian seaborne buyers were becoming less-diversified and more dependent on Australia. China was trying to avoid a monumental credit meltdown in the coal and steel sectors by implementing draconian measures to curb surplus coal and steel production. Most of the US coal-fired power plant retirements were already in the rearview mirror and the US coal sector had downsized accordingly into a leaner version of its former self. Natural gas prices were recovering and returning some market share to coal-fired generation.

According to the thesis, the market had finally rebalanced and prices were poised to move higher. However, two +US$300 price surges within six months of each other were unanticipated. The first surge in 3Q/4Q16 was caused by a combination of increased imports from China and some operational glitches in Australia. The second surge in 2Q17 was caused by an epic cyclone that disabled the world’s busiest metallurgical coal rail line in Australia for almost an entire month. Nor did this thesis envision a transition in the US, from a political party committed to abandoning coal to one committed to championing coal; from a country where the Clean Power Plan was seen as a ‘fait accompli’ to one which would exit from the Paris Climate Accord.
The industry's trump card

Republican primary candidate Donald Trump promised to end the war on coal. The other candidates danced around the topic because they did not want to alienate the independent millennials, which is likely to have alienated the potential 60,000 coal miners. Donald Trump regarded these coal miners as a metaphor for what was happening to blue collar workers across the country. Many citizens across the US were worried that the country was nearing the point of no return. Donald Trump – an outsider who was beholden to no one – was ‘calling out’ both sides of the political aisles for failing to address the critical issues. During President Obama’s eight years in office, the EPA made a series of power grabs that not only directly threatened the coal sector, but also had serious ramifications for virtually any sector of the economy upon which the federal government desired to encroach.

During the first five months of his administration, President Trump defied conventional wisdom by actually delivering on his campaign promise to end the war on coal. He ended the moratorium on new federal coal leases, as well as ending the Stream Protection Rule. He is also well along the way to dismantling the controversial Clean Power Plan. And most noteworthy, he exited the US from the Paris Climate Accord. His new EPA Administrator, Scott Pruitt, is committed to reversing the rulemaking frenzy of the past eight years, including a promise to redefine the term, ‘Waters of the US’.

The good news is President Trump ended the war on coal; the bad news is he could not turn back time. Much of the damage to the US coal sector is irreparable. What was a 1.1 billion short tpy industry when President Obama took office is expected to mine 764 million short t in 2017. A power sector that converted 935 million short t of coal into electricity in 2009 will only consume 688 million short t in 2017 (Source: DTC). Years of subsidised renewable energy and the tightening of regulatory screws that forced the retirement of many coal-fired power plants have taken their toll and cannot be undone. True, the astonishing advances in natural gas drilling and hydraulic fracturing enabled natural gas-fired power plants to capture market share, but this was not entirely a fair fight. Coal mining costs climbed under a regulatory bombardment that did little to improve mine safety or the environment. EPA regulations could not turn back time. Much of the damage to the US coal sector is irreparable. What was a 1.1 billion short tpy industry when President Obama took office is expected to mine 764 million short t in 2017. A power sector that converted 935 million short t of coal into electricity in 2009 will only consume 688 million short t in 2017 (Source: DTC).

Table 1. Coal prices: July 2016 vs July 2017

<table>
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<tr>
<th>Product</th>
<th>July 2016</th>
<th>July 2017</th>
<th>Year-on-year</th>
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<tbody>
<tr>
<td>Northern Appalachia Thermal ($/NT)</td>
<td>$31.00</td>
<td>$42.50</td>
<td>37%</td>
</tr>
<tr>
<td>Central Appalachia Thermal ($/NT)</td>
<td>$38.25</td>
<td>$54.85</td>
<td>43%</td>
</tr>
<tr>
<td>Illinois Basin Therm ($/NT)</td>
<td>$28.75</td>
<td>$33.00</td>
<td>15%</td>
</tr>
<tr>
<td>Powder River Basin Thermal</td>
<td>$11.75</td>
<td></td>
<td>22%</td>
</tr>
<tr>
<td>Queensland Prem Coking Coal ($/MT)</td>
<td>$92.00</td>
<td>$154.00</td>
<td>67%</td>
</tr>
<tr>
<td>US Premium HV Coking Coal ($/MT)</td>
<td>$91.50</td>
<td>$151.00</td>
<td>65%</td>
</tr>
<tr>
<td>API 2 Thermal ($/MT)</td>
<td>$55.00</td>
<td>$83.85</td>
<td>56%</td>
</tr>
<tr>
<td>Newcastle Thermal ($/MT)</td>
<td>$57.60</td>
<td>$83.40</td>
<td>45%</td>
</tr>
</tbody>
</table>

(Source: Coaldesk, LLC, Platts, Btu Baron LLC)

Table 2. Key US supply and demand inputs

<table>
<thead>
<tr>
<th></th>
<th>(million tonnes)</th>
<th>Year-on-year</th>
</tr>
</thead>
<tbody>
<tr>
<td>US coal production (Jan-Jul)</td>
<td>389.39</td>
<td>16%</td>
</tr>
<tr>
<td>US utility consumption (Jan-Apr)</td>
<td>205.30</td>
<td>7%</td>
</tr>
<tr>
<td>US metallurgical coal exports (Jan-May)</td>
<td>21.47</td>
<td>27%</td>
</tr>
<tr>
<td>US thermal coal exports (Jan-May)</td>
<td>15.31</td>
<td>164%</td>
</tr>
<tr>
<td>US total col exports (Jan-May)</td>
<td>36.79</td>
<td>62%</td>
</tr>
</tbody>
</table>

(Source: DTC)

Fake news

However, it would be ‘fake news’ to attribute the recovery in US coal production, coal employment and coal prices to President Trump. He did not cause the price surge in 3Q/4Q16. The factors previously mentioned prompted that upswing. He certainly was not responsible for Cyclone Debbie, which caused the price surge in 2Q17.

President Trump’s legacy as it pertains to the coal industry will be seen in the longer term due to the rebalanced Supreme Court, the dismantled Clean Power Plan and the exit from the Paris Climate Accord. In the near term, the direct threats from the federal lease moratorium and the Stream Protection Rule have demonstrated that there is a new sheriff in town who supports the coal sector. There have been some mines opening and expanding existing operations. Dozens of mining communities that were close to the abyss may now have a new lease on life. The simple fact that the coal industry is no longer at odds with the government provides a welcomed breath of fresh air for coal miners across the US.

During the past twelve months, the major coal companies that made the unfortunate decisions to over-borrow to over-pay for over-priced coal assets in 2011 (Alpha, Arch, Peabody and Walter Energy) used the magic of the US bankruptcy system to renegotiate their obligations to vendors, equity investors and unsecured creditors. Before their declarations of insolvency, each company was on the speaking circuit with their particular versions of ‘talking points’, which boasted how many quarters of liquidity they had to ride out the storm. Aside from the burned equity and unsecured creditors, the other victims were the coal companies who simply hunkered-down during the recovery period while continuing to pay their creditors and vendors. These valiant survivors now have to compete against the new versions of these...
bankrupt companies, who have minimal debt to service. Equity investors in the institutional world of finance have short memories and are back in many of these names. Alliance, Cloud Peak, CNX, Corsa, Foresight and Hallador along with many privately-held companies, such as Black Hawk, Bowie Resources, Murray Energy and Rosebud have my respect for stewarding ‘other people’s money’.

An uncertain future
So what do the next few years have in store for the US coal sector? Coal prices have recovered to some degree over the past twelve months; however, there is still sufficient overcapacity in each of the major coal basins to justify another round of consolidation. Ironically, the companies best positioned to consolidate are those with the least debt thanks to their recent bankruptcies. It might take another year before the creditors recover from their past wounds, but they will inevitably forgive and forget.

There are several drivers working in the US coal sector’s favour. Utility inventories are expected to drop to 145 million short t by the end of this year vs 164 million short t in December 2016. Coal exports are expected to reach 76 million short t in 2017 vs 60 million short t in 2016 (Source: DTC). The industrial sector along with increased LNG exports are absorbing more natural gas, which eases the vicious battle for market share between coal and natural gas in the power sector. The Asian economies are humming along nicely. The US economy might provide a global economic bounce once President Trump’s initiatives and lower taxes are underway. However, the headwinds are formidable. Coal suppliers in the US and around the world reacted to the price surges by bringing on new mines or by bringing back idled operations. Many of these tonnes have yet to reach the market. China has been a bullish force in the seaborne market over the past twelve months, but has demonstrated its capricious ability to enact policies that can reduce coal imports by 90 million t over the course of a single year. US utility coal demand will continue to be dogged by a non-hydro renewable sector that now commands a 10% market share and by a natural gas sector that, when in surplus, will take whatever market share is needed from coal in order to rebalance.

The only prediction that this article will make is that the industry is entering a multi-year period of sustained price volatility. The US is still playing the role of the seaborne ‘swing supplier’, but it no longer has as deep a bench as it once had. Therefore, prices have to swing harder in order for the marginal tonne to shift into the seaborne market. If the industrial, residential and LNG sectors are consuming natural gas at a healthy rate, the natural gas suppliers will gladly allow the coal suppliers to price the marginal megawatt. However, the moment there is a warm winter, an economic slowdown and/or a global LNG glut, coal prices could collapse.

The bottom line is while the US coal sector is in far better shape than it was twelve months ago in terms of pricing, production, demand, employment and regulatory policy, it cannot rest on its laurels nor put its guard down.

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