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The first quarter of 2022 has been a real rollercoaster for the coal industry. On one hand, there have been lingering positive effects from the strong coal demand that highlighted the end of 2021 – some regions recorded significant upticks in demand, fuelled by the global economic recovery from COVID-19 as well as seasonal impacts on energy supplies. While on the other hand, having been brought to the boil by the 2021 United Nations Climate Change Conference (COP26), concerns about climate change continue to be a hot topic of discussion. Now as we move deeper into spring and 2Q22, further twists and turns are presenting themselves.

According to Rystad Energy, coal prices soared this March, to the extent that 200 year highs have been surpassed – data shows that prices reached US$462/t on 10 March 2022, up from US$186/t on 23 February 2022, with Rystad research suggesting that the US$500/t threshold could be crossed later this year. Of course, the primary cause of this increase has been the war in Ukraine and the subsequent imposition of “unprecedented” economic sanctions on Russia, which have thrown the global energy market into chaos. The implications of price increases across the energy industry have led to many serious questions being asked, with debates such as ‘climate ambitions vs keeping the lights on’ taking centre stage.

The necessity of meeting energy demand in the face of widespread shortages has, at least in the short-term, swung the winds of change strongly in favour of the coal industry. As Al Jazeera reported on 25 March, “though Western sanctions have not yet directly targeted Russian oil, coal or gas, the European Union (EU) has announced plans to end its energy reliance on Russia”. This decision by the EU to sever its ties with Russian-produced energy on a short timeline created a large energy supply void that needed to be filled in a hurry: enter coal.

While natural gas, largely in the form of LNG, has picked up a lot of the slack in European energy supply – the EU just recently signed an agreement with the US for 15 billion m³ of LNG to be supplied by the end of 2022 – coal has also had an important part to play. According to The Wall Street Journal (TWSJ), shortly after Russian troops crossed the Ukrainian border, several European countries, including Poland, Italy and Germany, were already making plans for coal to replace supplies that had previously been sourced from Russia. As noted by TWSJ, one of the biggest advantages of coal over gas in this instance is the ability of power plants to switch from natural gas to coal at short notice. While it can take time for LNG to be sourced and delivered, coal-power offers a solution that can be implemented post-haste.

From a broad perspective of recent events, this latest European energy crisis can be viewed as a microcosm of the global energy transition at large. The switch from one energy source to another, be it fossil fuels to renewables or Russian pipeline gas to US LNG, cannot be achieved overnight; a transition period is essential. This once again illustrates coal’s value as a transition fuel. Almost inevitably, one day other sources of energy, likely renewable, will take over the task of meeting the world’s ever increasing demands for energy from fossil fuels. However, today is not that day.
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Thiess has been awarded a three-year contract renewal to provide mining services at Harum Energy’s Mahakam Sumber Jaya (MSJ) Mine in East Kalimantan, Indonesia. Under the contract extension commencing from 1 April 2023, Thiess will continue providing mine design and planning, drill and blast, overburden removal, load and haul, asset maintenance and management, rehabilitation, water management, and haul road maintenance services.

NRW Holdings Ltd has advised that its wholly owned subsidiary, Golding Contractors Pty Ltd, has received a binding letter of intent to enter into a 5.5 year mining services agreement with Wonbindi Coal Pty Ltd at the Baralaba North Mine, Australia. The award is valued at approximately AUS$800 million and continues the strong relationship between Golding and Wonbindi Coal Pty Ltd, where Golding has provided the contract mining services at the Baralaba North Mine over the last four years. The scope of work remains the same and includes maintaining and operating a client-owned fleet of equipment, producing an ultra-low volatile PCI coal. The mining services agreement will commence on 1 July 2022.

Navajo Transitional Energy Co. (NTEC) has announced a strategic investment in Enchant Energy Corp., a company focused on developing a large scale platform for carbon capture services in the Southwest. With this investment, NTEC gains a board seat and will utilise its expertise to help the company yield strong investor returns and embrace environmental goals.

Contango Holdings Plc, a London listed natural resource development company developing the Lubu Coking Coal Project in Zimbabwe and the Garalo-Ntiela Gold Project in Mali, commenced production at the Lubu site on 29 March 2022. Production is underway on Block 2, which was selected given the high-quality metallurgical coal found at that location and its proximity to surface. Studies have defined an estimated 96 million t of metallurgical coal within Block 2, which forms part of the broader Lubu complex, where an estimated 1.25 billion t indicated and inferred resource has been identified to NI 43-101 levels. The company is targeting an initial stabilised mining rate of 5000 tpm. Contango will stockpile production during 2Q22 pending the installation of the wash plant in the same period, thereby providing sufficient feedstock to ensure continuity of supply. Work continues to prepare the site for the installation of the crushing unit, wash plant, and associated infrastructure. Following the installation of the wash plant, the company expects to sell washed metallurgical coal to regional buyers, as well as exporting to South Africa, where the company has held recent discussions with interested parties.

Later in 2022, Contango expects to be able to capture the full value for its product by subsequently manufacturing coke at site for use in the steel and ferro-alloy industries. An initial smaller scale coke battery of 36 000 tpy has been sourced and a larger coke battery of 150 000 tpy is expected to be installed towards year end. Whilst sales prices are subject to offtake and future global pricing, the company is confident that margins in excess of US$300/t should be achievable based on ongoing discussions with potential off-takers.

Hexagon’s Mining division has been awarded a fleet management project by PT Antareja Mahada Makmur (PT AMM), which provides contractor services to Indonesia’s coal mining sector. The five-year deal will see 176 units of HxGN MineOperate OP Pro implemented across multiple sites. PT AMM is a subsidiary of PT Putra Perkasa Abadi, the third largest mining contractor in Indonesia. The company specialises in value-added services in the opencast mining sector, carrying out rock/soil stripping of the excavation sub-sector, and loading and stripping of rock/soil overburden based on sound mining technical principals.

OP Pro combines hardware and software to automate workflows, optimise haulage and blending, and delivers situational awareness. It provides customers with an insightful window into mine operations.
BOTSWANA Tlou Energy signs transmission line contract

Tlou Energy Ltd has signed a contract for the construction of a transmission line to connect the Lesedi Power Project to the Botswana's electricity grid.

The Lesedi Power Project is located approximately 100 km from the existing electricity grid in Botswana. The first stage of development will be the erection of wooden poles fitted with an overhead 66 kV transmission line, capable of supplying up to 25 MW of power into the grid. The line will commence at Lesedi and run across predominantly flat terrain. The final 5 km traverse the outskirts of the Serowe township, where the line will join the existing grid.

Zismo Engineering Pty Ltd has been engaged to construct the transmission line. Zismo expects to mobilise plant and equipment on site in the coming weeks. The project is expected to take approximately 15 months to complete.

In addition to the overhead lines, substations will be installed at Lesedi and Serowe. The Lesedi substation will integrate the generation assets with the transmission line and the Serowe substation will tie in with Botswana Power Corp.'s existing infrastructure. This work will be completed by OptiPower, a division of Murray & Roberts Ltd.

The substation contract is due to be signed later, with completion scheduled to tie in with completion of the overhead lines.

SOUTH AFRICA Anglo American completes sale of remaining shares in Thungela

Anglo American plc has announced the sale of the group’s remaining 8% shareholding in Thungela Resources Ltd. The sale has been completed through an accelerated book build placing to a number of major financial institutions, realising gross proceeds of ZAR 1672 million (approximately US$115 million). The Thungela shares were placed at a price of ZAR 154 per share, representing a 12% discount to the closing share price on 24 March 2022 and a 4% discount to the closing share price on 23 March 2022.

At the time of the demerger of Thungela to Anglo American’s shareholders, which completed in June 2021, Anglo American stated its intention to dispose of its remaining interest in Thungela over time and in a responsible manner, subject to market conditions and not within the first six months following the demerger.

Following the end of that six month period in December 2021, and the end of Thungela’s closed period following the announcement of its 2021 results on 22 March 2022, Anglo American launched and completed the sale of its remaining shares and no longer holds any shares in Thungela.
AUSTRALIA State Gas provides production testing update

State Gas Ltd has provided an update on its current production testing activities at its Reid’s Dome and Rolleston-West Projects in Central Queensland.

At Rolleston-West, State Gas is targeting the Bandanna Formation coals, which are extensive across large areas of the permit. The potential of these areas is underpinned by Santos’ commercial production of gas from the Bandannas at the Arcadia Valley field to the south-east, and Comet Ridge’s progress towards commercial production from the Bandannas at Mahalo to the north-east.

Following encouraging results from the drilling of the first two wells in the permit, State Gas is now working to confirm the potential of the area for gas development by production testing to prove the producibility of the gas from the Rougemont-2 well.

Rougemont-2 pumping has demonstrated it is accessing a large drainage area that augurs well for future gas production. The well is presently flowing gas at a rate of 7500 ft³/d, with a steady incline in the gas-to-water ratio. Rougemont-2 has excellent permeability at optimal depth and pressure. The company’s analysis indicates that desorption from coals commenced in mid-January and current gas production is from both desorption and gas dissolved in the water. The company anticipates that optimal desorption will be achieved once a large area of the reservoir has been drained. Following successful pumping at Rougemont-2, all coals had been exposed to the well bore by 15 March 2022.

The company is presently reviewing its development plans to determine whether it now has sufficient gas to underwrite a pipeline connection via Rougemont to the existing Central Queensland gas trunkline.

USA Bens Creek Group provides coal production and delivery update

Bens Creek, the owner of a recently re-opened metallurgical coal mine in North America supplying the steel industry, has provided an update on coal production and deliveries.

On 10 February 2022, the company completed the first purchase order from Integrity Coal Sales Inc of 17 000 raw t, equivalent to approximately 9000 clean t. A second purchase order for a further 23 000 raw t, equivalent to approximately 12 000 clean t, was completed on 10 March 2022. Both of these deliveries fulfil the company’s initial arrangement with Integrity to deliver raw tonnes and are in line with the delivery dates set out in the company’s agreement with Integrity, which was announced on 21 October 2021, and which runs to the end of December 2022.

Having supplied raw coal to Integrity since the commencement of production, Bens Creek intends to now supply them with 264 000 t, with a minimum monthly consignment of 22 000 clean t, commencing with a first clean coal delivery in April 2022. The expected selling price of this consignment and monthly thereafter will be closely linked to the S&P Global Platts price of the Hi Vol B coal product at the time of assignment, as set out in the agreement with Integrity.

The increase in the price of all types of metallurgical coal reinforces a lack of supply in the market and, in the view of the Board of Bens Creek, strengthens the demand for the company’s product.

As the company moves into the delivery of clean tonnes to Integrity, it intends to operate a second shift using its existing highwall miner to further increase the production and sale of additional HVB metallurgical coal. The company has also successfully completed its final tests of the refurbished preparation and wash plant and is now fully operational.

Following the announcements made by the company on 18 January 2022 and 25 February 2022 of the purchase of a second highwall miner, the company has announced that the highwall miner is on route to the company’s site and was expected to be delivered by the end of March 2022.

The company anticipates that, during April 2022, underground mining will commence at the Bens Creek mine. This is expected to allow access to a higher quality of metallurgical coal, classified as Hi Vol A. Whilst the expected volumes will be lower than extracting metallurgical coal using a highwall miner, this higher-grade quality coal will command a premium price to the price of HVB.
Hongmei Li, Mysteel Global, China, considers the continued importance of coal as an energy source for China.

With China’s economy progressing towards a quality and consumption-oriented model, no one would have foreseen the popularity and great attention coal has attracted domestically and abroad in 2021. Especially not when considering that the whole world had been suffering too from constraints in energy supplies in 2H21, with oil and natural gas prices soaring together with that of coal.

It is understandable in retrospect, though, as China – being the second largest economy in the world – has still been heavily relying on coal for energy supply. However, the proportion has been decreasing steadily and gradually in the past few years, especially since 2016, when China went through obsolete coal mining capacity elimination.

All the governments in major countries (including China) have been investing heavily in infrastructure construction as part of major efforts to rescue their individual economies from the heavy blow of the COVID-19 pandemic. This, in turn, has triggered bursting demand for industrial goods and led to surges in industrial output.

Interestingly, part of the industrial output growth was also due to the fact that most of the people in the world, other than those in China, have been working from home ever since 2020. Therefore, the demand for all kinds of home and office electronics and means of transportation to minimise exposure to the virus has also grown at explosive rates.
COVID-19-struck years have surely been testing many countries’ economic resilience, and this may probably remain the case in 2022. The silver lining has been that many of the domestic industrial sectors have experienced the ‘golden period’ in the latter half of 2020 and 2021 in terms of revenues and earnings, with both having multiplied y/y.

Energy product suppliers, however, have been caught off guard, failing to meet the growing need from both households and industrial enterprises. As a result, it has come to little surprise that the shortage has been abrupt and severe, though coal, oil and gas suppliers have pocketed exceptionally high earnings.

Over January – November 2021, China’s 41 domestic industrial sectors under the tracking of the country’s National Bureau of Statistics (NBS) saw their total gross profit surge 38% y/y, much higher than their 2.4% y/y growth in the corresponding period of 2020. Among them all, coal mining and washing, oil and gas drilling, and oil, coal, and other fuels processing, unsurprisingly, were among the few with their gross profits bursting, up 222.6%, 284.3%, and 387.1% y/y, respectively, for the first 11 months of 2021.

China’s power consumption and coal demand in 2021

The latest available data from China’s National Energy Administration (NEA) until 4 January 2022 shows that between January – November 2021, the country consumed approximately 7.5 trillion kWh of electricity, up 11.4% y/y, among which industrial sectors accounted for 67% of the total, growing 10.2% y/y. Both these growths were more substantial than the 2.5% and 2.1% respective y/y rises over the corresponding period in 2020. As for power supply over the first 11 months of 2021, China’s installed power generation capacity added up to 2.32 trillion kW, up 9% y/y, among which coal-fired power generation capacity remained the dominant majority at 55.4% of the total. However, its 3.5% y/y growth had been the lowest among all energy sources, including clean power, such as hydro, nuclear, wind and solar, according to the official data. Among the clean energies, the rankings ran as hydro, wind, and solar from high to low in terms of the installed capacity.

Coal to stay relevant and crucial in China’s energy bundle
In the 21st century, a pattern seems to have been formed in China’s energy market: coal and power supply have
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tended to be seriously stretched nationwide whenever the domestic industrial sector’s performance has been exceptionally robust in the context of strong economic growth, either because of its development cycle or due to government’s rescue efforts. Other than 2021, 2008 – 2009 was the last time China faced a similar situation in coal and power supply.

This could well be due to the fact that China, despite its progress made in optimising its economic development model, will still have to fall back on investment and industry to maintain a reasonably high GDP growth when emergency calls for drastic efforts.

Over January – November 2021, the country produced 3.67 billion t of raw coal, 182.48 million t of crude oil and 186 billion m³ of natural gas, with the first two also scoring higher y/y growths than the corresponding period of 2020, according to China’s NBS data. The country’s acknowledgement of its heavy leaning on coal for power supply for now (and for the foreseeable future) has thus prompted the government to finalise the expression regarding its coal consumption in its commitments during the COP26 in 2021 as “phase down”.

The substantial gains in China’s monthly raw coal output between October – November 2021 appeared even more obvious when compared with the corresponding periods of 2019 – 2020. The volumes for both the months exceeded 350 million t, and were much higher than October – November in the previous two years, with or without COVID-19 as a factor.

China’s policy backs up higher coal output, concentration until 2025

During China’s 14th Five-Year Plan period (2021 – 2025), the domestic coal industry will seek further optimisation in key aspects, such as the number of coal miners and the industrial concentration, just as the China National Coal Association (CNCA) proposed in early June 2021. CNCA suggested that the number of the operative coal mines was to be capped within 4000, with the contribution to the country’s annual coal production by those larger-sized mines with capacities at 1.2 million tpy and above to exceed 85%.

By 2025, China’s coal production will be capped within 4.1 billion t and consumption within 4.2 billion t, both appearing feasible and higher than 2020, though the y/y growth in consumption, for example, will probably slow down to approximately 1% on average in the next few years. This is with the exception of Shanxi, the country’s top coal mining province, where the provincial government aims to reduce its coal output to below 1 billion t by 2025, down from 1.06 billion t in 2020.

Conclusion

These are hard proofs that China is after a more efficient and concentrated coal industry with slightly higher output, and Mysteel Global understands that these objectives are very much in line with the country’s energy evolution plan and the national carbon emission peak by 2030, with an aim to be carbon neutral by 2060.

Note

All information was accurate at the time of writing (January 2022).
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