Outlook for the U.S. Coal Market

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Coal Shipments on the PRB Joint Line

Planned Increase in Joint Line coal shipments for 2005: + 26 million tons
Actual Increase: ? - but only a small fraction of plan

Sources:
BNSF & UP data, and Pace Global estimates.
U.S. Coal Production: Central Appalachia

Actual Change 1999-2004: - 31 million tons (-12%)
Expected Change 2004-2006: + 3.5 million tons (+1%)

Key Drivers of Changes:
> Depletion of reserves.
> High production costs.
> Short mine lives/long permitting cycle.
> Wave of producer bankruptcies starting late 1990s.
> Shortage of experienced miners.

U.S. Coal Production: Northern Appalachia

Actual Change 1999-2004: - 6 million tons (-5%)
Expected Change 2004-2006: + 7 million tons (+5%)

Key Drivers of Changes:
> Increases in mining costs and SO₂ allowance prices have reduced this coal's competitiveness relative to PRB coal.
> Reserves are abundant, but capital costs are high for the large underground mining complexes required to mine this coal efficiently.

U.S. Coal Production: Illinois Basin

Actual Change 1999-2004: - 14 million tons (-14%)
Expected Change 2004-2006: + 0 million tons (+0%)

Key Drivers of Changes:
> Increases in mining costs and SO2 allowance prices have reduced this coal's competitiveness relative to PRB coal.
> PRB coal is a very strong competitor in the Midwestern region where this coal is mined and used.
> Reserves are abundant, but capital costs are high for the large underground mining complexes required to mine this coal efficiently.

U.S. Coal Production: Powder River Basin

Actual Change 1999-2004: + 62 million tons (+17%)
Expected Change 2004-2006: + 38 million tons (+9%)

Key Drivers of Changes:
> Very low-sulfur coal.
> Abundant reserves that can be mined at very low cost.
> Very large-scale (and easily expandable) production.
> Low heat content.
> Favorable geology going forward.
> Transportation: a significant, but solvable problem.

Other Important Market Developments

• Coal consumption for electric generation is up moderately so far this year.
  – + 0.7% through the first half
  – Expected to increase by a total of 10 million tons for all of 2005.

• Coal consumption for industrial use appears likely to decrease by about 2 million tons in 2005 (a decrease of slightly more than 2%).

• Coal exports will likely be flat in 2005 as the international market for metallurgical coal has cooled somewhat.

• Coal imports will likely be up by 5 million tons (to 32 million tons) for 2005, and will likely continue to increase significantly in the near term.
Short Term Outlook: Coal Supply & Consumption

Coal Supply & Consumption

Draw from Inventories

Potential Consumption

Long-Term Outlook: Coal Prices

2004 $/Ton


CAPP Compliance  CAPP Non-Compliance  NAPP Non-Compliance
IL Basin  Rockies (CO)  PRB 8800

Coal Prices
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Thank You!