COAL & ENERGY Price Report

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Market Commentary

One major coking coal supplier said Foundation Coal's lawsuit against ArcelorMittal was neither a surprise nor a reflection of any out-lying behavior.

"If it was possible to have a class action suit they'd have a lot of partners," the source said, noting cancelled ships and coal that didn't get lifted during the fourth quarter.

The source also noted that ArcelorMittal sued Bluestone Coal last year to force the delivery of coal priced out of the market. "Now they don't want to perform," he said of the giant steelmaker.

Foundation isn't a major met coal producer, and the source acknowledged that it would be tougher for a more prolific producer to file a suit against such a major buyer. The quality of the Foundation coal, from the Kingston mine, which is "probably one of the best met coals in Appalachia," also offered some cover, he said. "If you've got great coal, there is always somebody who will be around to buy it. All you talk about is the price."

Still, the amount of money at stake in disputed coking coal deals between multiple suppliers and consumers likely will cause further legal action, the source said.

Foundation probably was getting $250-260/ton for coal under its 200,000-ton contract with ArcelorMittal. Even re-pricing the coal to $150/ton would be a radical give-back, the source noted.

"If you just give away $22 million, how long do you have to sell coal to ArcelorMittal to make it back?" the source said. "You're almost pushed into a situation where you have to litigate."

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Rumors of Metinvest closure on United Coal deal appear premature, at best

There were rumors late last week that Metinvest had closed on a deal to buy United Coal. But sources don't think such is the case.

What did happen, according to Steel Business Briefing, is Italian and Bulgarian anti-monopoly regulators gave permission to the Ukrainian steelmaker to close on the acquisition. That's a development to which Metinvest maybe answered, "Gee thanks."

It isn't at all clear, at this point, that Metinvest wants to close on United. But Metinvest surely would like to have back the deposit it placed in an escrow account to compensate United's owners in the event of a cratered deal.

Apparently Metinvest put up last fall either $300 million or $400 million in nonrefundable cash binding it to purchase United. There was talk of a $2.5 billion eventual purchase price. The recent rumor had the deal closing at $1.25 billion.

In light of the events of the past few months, Metinvest has been trying to get the escrow money back, claiming "material adverse change" in conditions prevailing at the time it agreed to buy United, a source said.

Obviously, United's owners have argued that the transaction should get done. The owners want to keep the deposit, and they want the balance of the payment for the company.

"It seems to me like it's still in a stalemate over who gets the deposit," a source said.

The thing is a mess. "Do the

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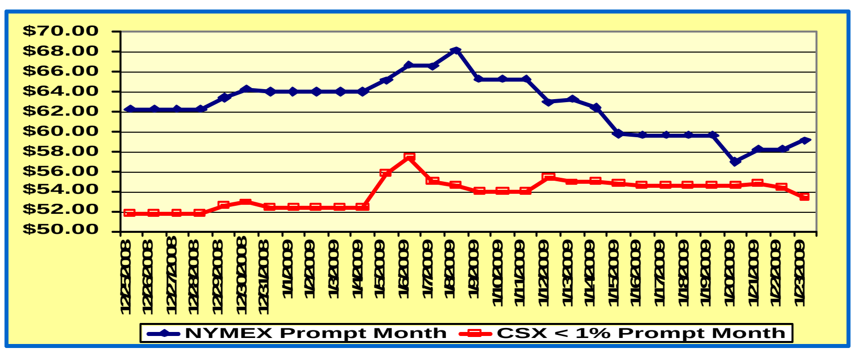
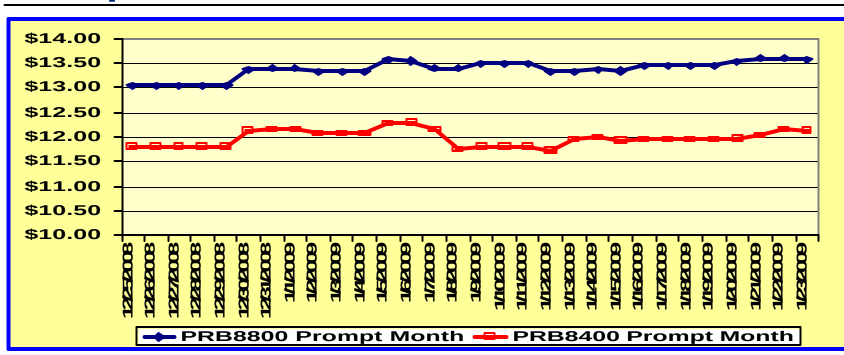
Prompt Month *for CSX < 1% & NYMEX Coals*



Prompt Month *for PRB 8800 and PRB 8400 Coals*



Market Commentary

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In the end, it's a pretty easy choice, the source said. Under such a legal scenario, the coal producer might be forced, in the weaker market, to sell the coal for, say, $130/ton, rather than the $150/ton price it might have been able to negotiate with the original buyer. But a $20/ton price differential in the pursuit of $22 million isn't an unreasonable sacrifice.

It's probably reasonable to surmise that the cost of producing the Kingston coal is around $80/ton. The operation, which encompasses two underground mines, produces some 1.2 million to 1.4 million tons/year of coal. Clearly the 200,000 tons from ArcelorMittal represent a critical piece of business.

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Interesting assessment in Caterpillar's earnings report: "Central Appalachian coal prices should average a little more than $40 per ton in 2009, which should allow a 0.5 percent increase in coal production," the company wrote.

You buy that? Let me know, please.

"Coal prices in the rest of the world should also be high enough to cause producers to increase output," Caterpillar wrote.

Like everything else in this crazy old gin joint we call the global economy, Caterpillar's report was a tale of two realities – three quarters of partying followed by a fourth quarter hangover.

Caterpillar had record sales and revenues of $51.324 billion for 2008, up 14 percent from 2007. Profit per share was $5.66, up five percent. The company also reported record fourth quarter sales and revenues of $12.923 billion, six percent higher than the fourth quarter of 2007.

And yet…

"While 2008 was our sixth consecutive year of record sales and revenues, it was an extraordinarily challenging year," Caterpillar Chairman and CEO Jim Owens said. "Through the first three quarters we experienced booming demand from key global industries, notably mining and energy, and most emerging market countries. Delivery times for many products were extended, and we were focused on increasing production and expediting shipments to meet customer needs.

"Then we were whipsawed in the fourth quarter as key industries were hit by a rapidly deteriorating global economy and plunging commodity prices. In anticipation of lower demand we encouraged dealers to align inventory with declining volume, and they responded with significant order cancellations, particularly in December."

Fourth quarter profit was disappointing as Caterpillar moved to lower volumes and to initiate production cuts. That increased costs.

As the U.S. entered a recession in 2008, coal mining and oil sands were about the only positives for North America, Caterpillar noted. Increased exports and higher prices supported equipment demand.

Further, higher coal prices contributed to sizable sales volume growth in Indonesia. Mine output expanded in Australia as mining employment increased 30 percent. Higher production, along with commodity prices that were still attractive for investment, led to increased sales volume. Higher coal prices boosted sales volume in Colombia.

Caterpillar clearly wants to hang on to that lovin' feeling, where mining is concerned. At a $40 CAPP coal price, an increase in production would be righteous, brother. But baby, baby, baby, babeeeeee…

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The Natural Resources Defense Council is after the Ohio Environmental Protection Agency to require American Municipal Power to burn low-sulfur coal at its new circa 1,000-MW Meigs County generating station on the Ohio River.

The flap, of course, centers on AMP's use of Ohio coal in a blend with low-sulfur coal. The NRDC doesn't think the in-state stuff ought to fly. It wants an appeals commission to rescind AMP's air permit.

It comes to this: The federal EPA, at one point, asked AMP to consider the impact of using 100 percent low-sulfur coal. That would disqualify in-state coals.

AMP's power plant can meet emission requirements by burning maybe 65 percent Ohio coal, the balance from West Virginia. The final blend hasn't been decided, an AMP official told the Columbus (OH) Dispatch.

It's unlikely the NRDC much cares whether AMP burns low-sulfur coal at the Meigs station. The plant will have state-of-the-art emission controls.

More likely, the NRDC has a couple of goals: It wants to muddy up the water, in general, by getting the permit rescinded. And it likely realizes that prohibiting the use of local coal would cause some erosion in local support for the project.❑

Rumors...

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Ukrainians have the rest of the money to close even if they're forced?" a source wondered.

There was all kind of steel money chasing met coal properties in the year or so leading up to the economic meltdown. Ben Statler got his wallet out in time to get it filled. So did Dick Preservati and Rusty Skews. The PBS Coals owners got an agreement done.

Anything else appears to be up in the air. In addition to United, Bluestone Coal, which was rumored more than once to have been sold, appears destined not to get moved. Nobody is looking seriously at this point, according to sources.❑

Coalcorp says it will file for arbitration in port access dispute with Glencore

Coalcorp Mining is filing a notice of arbitration with the London Court of International Arbitration asking for a declaration that a contract which Coalcorp's agent GC Coal, signed with Glencore International in February 2007, is not valid or binding on Coalcorp.

The decision followed an internal review by the new management of the company, Coalcorp said.

Glencore and its Colombian subsidiary, C.I. Prodeco S.A., recently informed Coalcorp that port access via rail will not be available during the first half of calendar year 2009 and possibly for the remainder of calendar year 2009, Coalcorp said.

Absent any disruptions or delays to the current project plan, Coalcorp said it expects to have rail access in the first half of calendar year 2009 and fully expects Glencore/C.I. Prodeco S.A. to comply with its obligations under the contract, giving Coalcorp port access once Coalcorp has the ability to transport and deliver by rail coal to the C.I. Prodeco port.

Coalcorp said it is "prepared to use all legal means necessary to ensure that Glencore/C.I. Prodeco S.A. fulfils its obligations."

In the meantime, Coalcorp has secured, and is in the process of identifying, other options to ensure ongoing port access and to diversify the company's shipment options, the company said.❑

Bulls have pretty strong day at New York Mercantile Exchange, extend gains

Eastern barge coal futures were up a bit January 23, continuing a soft late-week trend. While factors other than pure coal supply/demand are at work in the futures market, it still seems as if there is fundamental resistance to prices much below 60 bucks.

In any event, following trading on the Central Appalachian Coal contract at the New York Mercantile Exchange, the February 2009 price was up 75 cents, March $1.09. Further along, price increases were a bit more pronounced.

Second quarter settlements gained $1.82, third quarter $1.27, and fourth quarter $1.25. In 2010, first quarter numbers increased $1.20, second quarter $1.30, third quarter $1.38, and fourth quarter $1.65. Calendar year 2011 settlements were up $1.20.

CSX swaps prices weakened a bit near the front of the curve, strengthened as the calendar progressed. The February 2009 price was down a nickel to $54.30, while the March price retreated 33 cents to $54.75.

From there, the bulls prevailed, though not as decisively as on the NYMEX barge coal side.

Second quarter 2009 prices gained eight cents to $54.25, third quarter 34 cents to $54.92, and fourth quarter 33 cents to $55.50. Calendar year 2010 settlements were up 75 cents – first quarter to $57.81, second quarter to $58.56, third quarter to $59.31, and fourth quarter to $59.81.

For the most part, Powder River Basin swaps settlements were down small. Other than production and inventories, everything seems small in the PRB these days. The February 2009 price was the exception to the slight downward trend. It was unchanged.

The March settlement slipped four cents, while second quarter numbers were down five cents, and second half a nickel. In 2010, settlements for the first three quarters were down a penny. But traders went all radical with the fourth quarter, doubling it down to a two-cent loss.

Hearts fluttered. Fortunately, Captain Chesley B. "Sully" Sullenberger III was there to calm us.

Calendar year 2011 prices also declined two cents.

Latest PRB swaps settlements: February 2009, $13.44; March 2009, $13.53; second quarter 2009, $13.40; third quarter 2009, $13.43; fourth quarter 2009, $13.58; first quarter 2010, $14.37; second quarter 2010, $14.77; third quarter 2010, $15.22; and fourth quarter 2010, $15.54; calendar year 2011, $15.95.

NYMEX barge coal activity for January, February and March:

Month		
February	$59.08	+$0.75
March	$57.17	+$1.09
April	$57.25	+$1.82

The latest settlement prices…

Contract Month	Settlement Price
February 2009	59.08
March 2009	57.17
Second quarter 2009	57.25
Third quarter 2009	57.22
Fourth quarter 2009	57.50
First quarter 2010	59.47
Second quarter 2010	60.58
Third quarter 2010	61.58
Fourth quarter 2010	62.53
Calendar year 2011	62.52

Month Codes: Jan-F; Feb-G; Mar-H; Apr-J; May-K; Jun-M; Jul-N; Aug-Q; Sep-U; Oct-V; Nov-X; Dec-Z

OTC NYMEX Coal

(12,000 Btu/lb., 1% sulfur)

Term	Vol	Price	Bid	Offer
G09	5B	$59.00	$58.00	$60.00
G09	5B	$59.00	$0.00	$0.00
H09	5B	$0.00	$56.25	$58.25
Q209	5B	$58.00	$56.25	$58.25
Q209	5B	$57.50	$0.00	$0.00
Q209	5B	$57.50	$0.00	$0.00
Q209	5B	$57.50	$0.00	$0.00
Q309	5B	$0.00	$56.40	$58.40
Q409	5B	$58.00	$56.50	$58.50
Q409	5B	$57.75	$0.00	$0.00
Q409	5B	$57.75	$0.00	$0.00
Q409	5B	$57.75	$0.00	$0.00
Q409	5B	$57.75	$0.00	$0.00
Q409	5B	$57.50	$0.00	$0.00
Q409	5B	$57.50	$0.00	$0.00
Q3,409	5B	$56.75	$0.00	$0.00
Q110	5B	$0.00	$58.50	$60.50
Q210	5B	$0.00	$59.75	$61.75
Q310	5B	$0.00	$60.75	$62.75
Q410	5B	$0.00	$61.75	$63.75
Q111	5B	$0.00	$62.60	$63.60
CY10	5B	$0.00	$60.19	$62.19

Hill Daily Index ©

Quality	Hill Price	Hill Index	Last Trades
NYMEX Current Quarter, Plus One	$57.63	240.63	01/23/09
NYMEX Current Quarter, Plus Two	$56.75	236.95	01/23/09
NYMEX Next Calendar Year	$58.92	246.01	01/20/09
PRB 8,800 Current Quarter, Plus One	$13.25	297.09	12/22/08
PRB 8,800 Current Quarter, Plus Two	$13.50	302.69	12/09/08
PRB 8,800 Next Calendar Year	$15.30	343.05	01/08/09
PRB 8,400 Current Quarter, Plus One	$11.25	325.14	12/08/08
PRB 8,400 Current Quarter, Plus Two	$0.00	0.00	08/08/08
PRB 8,400 Next Calendar Year	$12.00	346.82	12/10/08
CSX <1% sulfur Current Quarter, Plus One	$51.25	197.12	12/23/08
CSX <1% sulfur Current Quarter, Plus Two	$55.00	211.54	12/18/08
CSX <1% sulfur Next Calendar Year	$61.00	234.62	01/13/09
CSX compliance Current Quarter, Plus One	$0.00	0.00	10/15/07
CSX compliance Next Calendar Year	$0.00	0.00	10/15/07
NS <1% sulfur Current Quarter, Plus One	$61.00	234.62	12/23/08
NS <1% sulfur Next Calendar Year	$61.00	234.62	12/23/08
NS compliance Current Quarter, Plus One	$0.00	0.00	09/30/08
NS compliance Next Calendar Year	$0.00	0.00	11/02/06

All prices are based exclusively on latest actual trades, and are indexed against market as of 12/28/99, when NYMEX-spec coal had been traded most recently at $23.95/ton, 8,800 Btu/lb. Powder River Basin coal at $4.46/ton and 8,400 Btu/lb. PRB coal at $3.46/ ton. The eastern rail index is measured against an arbitrary price of $26.00/ton. "Hill Index" reflects weighted average of prices recorded on most recent trading day. On days when no trades occur, published index remains at previous level. "Mid-market" reflects mid-point of current bid/ask values.

OTC PRB 8800

(at 0.8 lbs. SO2)

Term	Vol	Price	Bid	Offer
G09	1T	$0.00	$13.35	$13.85
H09	1T	$0.00	$13.35	$13.85
Q209	1T	$0.00	$13.40	$13.90
Q309	1T	$0.00	$13.45	$13.95
Q409	1T	$0.00	$13.50	$14.00
Q110	1T	$0.00	$14.30	$14.80
Q210	1T	$0.00	$14.70	$15.20
Q310	1T	$0.00	$15.05	$15.55
Q410	1T	$0.00	$15.35	$15.85
Q111	1T	$0.00	$15.60	$16.10
CY10	1T	$0.00	$14.85	$15.35

OTC Broker Index

January 23, 2009

	NYMEX look-alike	CSX 12,500 -1% sulfur	PRB 8,400	PRB 8,800
Prompt Month	59.13 0.88	53.33 -1.05	12.13 -0.02	13.58 -0.02
Prompt Quarter	57.13 1.48	56.63 0.00	12.13 -0.02	13.63 -0.05

Indices compiled courtesy of Argus Media, Inc.

CSX-BSK < 1%

Term	Vol	Price	Bid	Offer
G09	1T	$0.00	$52.50	$54.50
H09	1T	$0.00	$53.50	$55.50
Q209	1T	$0.00	$54.50	$56.50
Q309	1T	$0.00	$55.25	$57.25
Q409	1T	$0.00	$56.00	$58.00
Q110	1T	$0.00	$58.25	$60.25
Q210	1T	$0.00	$59.50	$61.50
Q310	1T	$0.00	$60.25	$62.25
Q410	1T	$0.00	$61.00	$63.00
Q111	1T	$0.00	$61.00	$63.00
CY10	1T	$0.00	$59.75	$61.75

NYMEX Futures

Term	Last	Open High	Open Low	Most Recent Settle	Prev. Day Total Vol
Natural Gas (Henry Hub)					
G09	4.446	n/a	4.44	4.518	1503
H09	4.415	n/a	4.419	4.493	1029
Crude Oil					
H09	46.17	n/a	46.05	46.47	23617
J09	48.97	n/a	48.97	49.21	6897

Emissions Markets Prices

NOX OTC Allowances	**Ton Units**
BANK	$600 X $675
Vintage 2009 Bid/Ask	$600 X $675
Vintage 2010 Bid/Ask	$525 X $700
SO2 OTC Allowances	
Vintage 2009 Bid/Ask	$130 X $140

Price Markers

NAPP 13,000 Btu/lb., 3.4 lbs SO2/MMBtu, $64.00/ton (RAIL)

ILB 11,500 Btu/lb., 2.8 lbs. SO2/MMBtu, $60.00/ton