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NS offers to buy Conrail...p.3
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LPB

October 28, 1996...Vol. 20, No. 42

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Tampa seeks coal offers

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Also, on Nov. 5 Tampa will take bids on 250,000 tons of "fuel grade" petroleum coke for Big Bend units 3 and 4.

Coal purchased under both inquiries will be delivered by water to Big Bend.

ENCOAL applies for plant permit

ENCOAL Corp., a unit of **Zeigler Coal Holding**, has begun the permitting process to build a major liquids-from-coal (LFC) plant, sited tentatively at its planned North Rochelle mine in Campbell County, Wyo. *(CO 10/21)*.

No timetable for construction has been released.

Plans call for a plant to convert 16,500 tons/day or 6 million tons/yr of sub-bituminous Powder River Basin coal into two products: 3 million tons/yr of a high-Btu, low-sulfur solid fuel dubbed PDF, and 3 million barrels/yr of a hydrocarbon liquid called CDL.

The LFC technology is owned by **TEK-KOL**, a 50/50 partnership of Zeigler and **SGI International**. The plans are based on a feasibility study which included engineering and design work by TEK-KOL and **Mitsubishi Heavy Industries** of Japan and 4-1/2 years of operating data from ENCOAL's 1,000-tons-day pilot plant at Zeigler's Buckskin mine near Gillette, Wyo.

"A number of domestic utilities have already purchased and successfully test burned large quantities of PDF," SGI said. Some steel mills are now testing PDF for possible use in direct iron reduction, SGI added. CDL would be used as chemical feedstock and fuel.

Moreover, ENCOAL's plant "is expected to be designed to supply coal fines and other fuels to a proposed adjacent power plant with a design capacity of up to 240 MW," SGI said.

TVA enters market for electricity

The **Tennessee Valley Authority** last week said it is seeking competitive proposals on options to buy power for future needs as an alternative to building plants or completing unfinished nuclear units.

A letter of intent to submit a bid is due Dec. 10. TVA wants proposals that give the federal utility the flexibility to purchase power if ne
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A similar RFP in 1994 re
agreement with **Enron Po**
Power LLC, TVA said.

Interested parties should
bid package to 423-751-352

ARCO, ITOCHU to buy Coastal's Utah operations

Coastal Corp. will sell its Utah coal operations and its 9% share of **Los Angeles Export Terminal** to **ARCO Coal** and **ITOCHU Corp.** for $615 million, but Coastal will retain its **ANR Coal** unit in the Eastern U.S.

The Utah operations — composed mainly of the SUFCO, Skyline and Soldier Creek deep mines — will be held in a limited liability company 65% owned by ARCO and 35% owned by ITOCHU.

The latter is a Tokyo-based Japanese trading company, which has investments in three Australian coal mines and in LAXT. ARCO already owns slightly more than 5% of LAXT. ITOCHU's active participation in the bidding process had been reported earlier by the Japanese trade press *(CO 9/9 Marketscoop)*.

Since the early 1980s, ITOCHU "has been the main trading channel for the export of Coastal's western coal into the Japanese power utility and steel mill market," ARCO said.

In keeping with the original prediction of Coastal and its financial advisor, **Lehman Brothers**, the deal is expected to close before the end of the year, subject to governmental approvals. Coastal put the properties on the block early this year *(CO 3/4)*.

Perhaps the main issue dominating the sale negotiation was the degree to which potential buyers would discount long-term, above-market contracts with **Intermountain Power Agency** and **Sierra Pacific Power** *(CO 9/23)*. As first reported by *Coal Outlook* last week, Coastal late in the process offered to indemnify the buyer against any harm that might come to the contracts as a result of arbitration proceedings or utility deregulation.

(Continued on page 8)

U.S. to see little change in 1997 export market?

As the old saying goes, "it ain't over 'til it's over," but early signs point to roll-overs on export tonnages and maybe some marginal increases in prices for the 1997 export year.

That was the consensus of speakers and attenders at last week's CoalTrans conference in Madrid, Spain. The annual meeting usually provides the site for early negotiations for the next export year. The general feeling was that not much definite is happening right now in the way of serious negotiations in preparation for 1997. That's a sign of a market with lots of question marks.

Here is a breakdown of highlights by market segment.

Metallurgical coal: As usual there was a coking coal panel at the conference. And, also as usual, signs of a likely price increase for met coal are found in between the lines of what was said. Several buyers for steel mills, including Claude Barry of **SOLLAC** in France, said coal producers have to cut prices because steel production in their nations is barely profitable at best. Conventional wisdom is that kind of talks mean either a price rollover or a
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A letter of intent to submit a bid is due Dec. 10. TVA wants proposals that give the federal utility the flexibility to purchase power if needed. TVA specifically asked for options on up to 2,000 MW to meet peak demand between 1998 and 2010, and then 2,000 MW of base-load capacity from 2002 to 2010.

A similar RFP in 1994 resulted in option purchase agreement with **Enron Power Marketing** and **LS Power LLC**, TVA said.

Interested parties should fax their request for the bid package to 423-751-3529.

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In the hallway outside the meeting room, the consensus seemed to be that high-vol prices may go up about $1/metric ton in 1997, but may roll-over in some places. One coal trader said increases are especially likely in Brazil, since coal traders settled for some especially low prices there in the current export year. One factor driving some price increases may be the recent closure of **Zeigler Coal Holding**'s No. 20 mine in West Virginia, which produced a

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The mine recently smashed a record for monthly production from a mine with a single longwall. The current panel, which runs out in December, is 840 feet by 18,000 feet. The next panel should be around 840 feet by 22,000 feet. And the panel after that, at least in the company's current mine plan, should be around 1,000 feet by 22,000 feet, said a state official who has seen those plans.... Peabody Coal Holding's Powderhorn Coal unit issued a WARN notice a few weeks ago for the Roadside mine *(CO 10/14)*. Powderhorn said it might idle the mine by Dec. 6. But a total idling of Roadside is unlikely. There are two portals at the mine. Powderhorn definitely will close the north portal, which supplies coal to Northern States Power. As reported, Peabody is looking to a third party producer (probably ARCO's West Elk mine) to fulfill its NSP contract. The south portal supplies coal to the adjacent Cameo plant of Public Service Co. of Colorado. Two sources tell *Coal Outlook* this portal likely will not close and will continue to furnish coal to Cameo....**In Mississippi, TVA will hold a public meeting in Ackerman, Miss., on Tuesday, Oct. 29, to seek comments for an environmental impact statement on a proposed lignite mine and 400-MW power plant. Representatives from the project partners — TVA, Phillips Coal and power producer CRSS Inc. — will be present to discuss the project. Written comments should be directed to Charles Bach, TVA, Mail Stop CRT 1D, Muscle Shoals, AL 35662-1010 by Nov. 16....**In the met coal arena, USX Corp. declines to discuss the problems that have plagued production at U.S. Steel Mining's Pinnacle operations. There has been a slowdown in production from the No. 50 mine, but details are sketchy. Some sources say U.S. Steel Mining has invoked *force majeure* under its contracts, but this could not be confirmed. "We are discussing that issue with our customers and not with the media," USX bristled.

Coastal didn't like bids for ANR ... (From page 1)

The sale and purchase agreement does include an indemnification for the buyers. "In the overall transaction," Coastal said, "we have provided the appropriate level of indemnification in order to obtain the full value of the coal operations."

But from that statement it is unclear whether the $615 million is the full sale price assuming no harm to the contract. At least one Wall Street analyst believes the price does include the indemnification, and Coastal somehow will reimburse ARCO if the contract revenue stream is harmed. ARCO declined comment.

In 1995 SUFCO, Skyline and Soldier Creek produced 9.8 million tons of low-sulfur, high-Btu, bituminous coal, which were sold to utility and industrial end users in the U.S., Japan and other Pacific Rim countries. About 10% of the total made its way into the export market. There are some 300 million tons of economically recoverable coal reserves, ARCO said. After the closing ARCO will explore expansion and growth opportunities for the three mines, the company said. A spokesperson declined further comment, except to say a fourth mine is unlikely.

This deal returns ARCO to Utah, which it abandoned with the 1992 sale of its Trail Mountain mine to **PacifiCorp**. It also cements ARCO's commitment to the coal industry. Over the years, as other oil and gas companies and utilities sold coal mines, there has been speculation that ARCO also might exit.

"ARCO Coal's interest in the newly formed company enhances our position as one of the premier producers and marketers of western low sulfur coal," said Michael DeGenring, acting president of the company. Moreover, "ITOCHU has unique marketing expertise in Japan and elsewhere in the Pacific Rim, which will be quite valuable as our new company explores additional potential markets."

This is ARCO's first venture with an equity partner in the U.S. coal business. Ichiro Kanade, executive vice president of ITOCHU, said the company has been looking for an equity position in the U.S. coal industry for some time. Coastal's mines, he said, are well positioned to take advantage of the "rapid growth" in steam coal demand that is forecast for the Pacific Rim in the next 15 years.

ARCO a powerhouse in Colorado, PRB

ARCO this year expects to produce 40 million tons at its Black Thunder mine — the largest coal mine in the world — and 4 million tons from its Coal Creek mine, which are both in the Powder River Basin, and another 6 million tons from its West Elk mine in Colorado. All of the PRB coal is domestic. Some 500,000 to 700,000 tons/yr of the West Elk coal is traded into the export market.

ARCO said its Japanese trading partner, **Mitsui**, will continue to represent ARCO's Australian and West Elk coals in Japan.

In Australia, ARCO is involved in three Queensland coal mines. It operates and owns 80% of the Gordonstone deep mine, which produces 5 million tons/yr. It is operator and majority owner of the Curragh surface mine, which produces 4 to 5 million tons/yr. Both ship thermal coal to the Australian and Japanese markets, and met coal to the world market. ARCO also owns 31% of the Blair Athol surface mine, which produces more than 10 million tons/yr.

Coastal needed the money to pay down debt. "This transaction will satisfy the financial objectives we had in offering our coal properties for sale," said Coastal CEO David Arledge. "The proceeds will enable us to pay down a significant amount of high-cost financial obligations and provide enhanced financial flexibility to take advantage of higher-growth opportunities."

ANR is profitable, Coastal says

Contrary to the view of some coal executives, Coastal insists ANR properties "have a history of strong profitability." Bids for ANR "did not reflect its potential for continued profitability and growth." ANR's James Van Lanen will remain in charge. One source said Van Lanen lobbied Coastal to retain ANR and presented Coastal with a plan to improve earnings. Van Lanen was not available.

ANR sold 8.2 million tons of captive or brokered coal in 1995. The captive coal comes from ANR's own mines and from contractor-operated mines located on "an extensive reserve base" in West Virginia, Virginia and Kentucky, the company said. A portion of its revenue comes from coal leases.

Initially there were rumors that **ARCO Coal** and **Quaker Coal** explored a partnership in which ARCO would take the Western operations and Quaker the Eastern properties. But neither company is willing to confirm or deny those reports. ARCO said it concentrated on the West because it did not feel it could add value in the East.