007/005 #2
cc: Lowell

0014

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DATE: November 4, 1997

TO:	LOWELL BRAXTON DARRON HADDOCK	LOCATION:	DIVISION OF OIL, GAS AND MINING
FROM:	KERRY FRAME	LOCATION:	CANYON FUEL COMPANY, SALT LAKE CITY

THIS TRANSMISSION CONSISTS FOR __1____ PAGES INCLUDING COVER PAGE

MESSAGE:

Canyon Fuel Company has retained the services of Vern Jones, a public records checker, to review records on file at BLM and the DOGM. Please provide Mr. Jones access to the confidential files associated with the Skyline Mines.

Yours very truly,

Kerry C. Frame

Kerry Frame

Unions to fight division of Conrail

The Transportation Trades Department of the **AFL-CIO** adopted a resolution last week opposing the $10 billion proposal by CSX and **Norfolk Southern** to acquire **Conrail**.

Union leaders said employees' lives are at risk as railroads get larger and the potential for accidents increases. The unions also are concerned about plans by NS and CSX to eliminate 2,000 jobs nationwide.

The resolution said, "Stories are spinning out across the West of lost and delayed freight shipments as the two railroads deal with equipment, capacity, crew shortage, safety and other problems. The **Surface Transportation Board** has an opportunity to avoid these same merger-inspired disasters in the East as it reviews the Conrail transaction."

Dan Pickett, president of the **Brotherhood of Railroad Signalmen**, stated, "We're seeing, as each merger gets approved, the emphasis has to shift to what happens after the merger." He said labor is not questioning the companies' commitment to safety but said problems are inevitable as work crews get used to new territories and new supervisory cultures.

NS spokesman Bob Fort called labor's complaints "180 degrees removed from reality."

Barge trade group pushes federal funding

The **National Waterways Conference**, a waterway trade association, has begun a lobbying campaign designed to increase funding for maintenance of the nation's navigable rivers.

A major theme of the campaign is that proper maintenance of the rivers requires adequate funding for the **Army Corps of Engineers** civil works program.

"Dramatic reductions in funding as proposed by the **Office of Management and Budget** would decimate the civil works program," said NWC spokesperson Ann McCulloch. "To overcome the effects of inflation, a funding level of about $4 billion is required—without any increases in water user taxes or cost-sharing."

McCulloch said Congress approved $4.1 billion in civil works funding for fiscal 1998, but OMB has set a flat $3.3 billion funding level for the Corps of Engineers for FY 1999 through FY 2002.

The **National Mining Assn.** recently sent a letter to House and Senate subcommittees urging adequate funding for waterways programs in the 1998 budget.

In 1995 coal comprised 28% of internal domestic waterborne commerce, more than any other commodity, McCulloch said.

Mason to speak in Knoxville

Tom Mason, general manager of fuel for **Cinergy**, will be the guest speaker at the October meeting of the Knoxville Coal Club.

Mason will discuss the coal market in general and Cinergy's fuel program in particular. The meeting starts at 11:30 a.m. Thursday, Oct. 23, at the Fox Den Country Club. Some members may play golf afterwards. To make a reservation, call club president Charlie Sawyer at **Blue Diamond Coal** at 423-588-8511.

The STB rejected the bottleneck [...]ms of PP&L and two other utilities at the end of 1996, but it agreed to consider PP&L's challenge to the through rates on combined hauls from origin to destination *(CO 1/6/97)*.

PP&L initially raised the issue three years ago when it had to face the choice of switching to low-sulfur coal or installling scrubbers to comply with the 1990 Clean Air Act. The utility currently is supplied from sources in Pennsylvania, primarily from Pittsburgh seam mines.

While PP&L's contracts are done, Delmarva P&L is very close to concluding deals that will let it continue to take coal from its CSX-origin suppliers. A utility official confirmed, "It appears at this time we will continue to have competitive access to CSX shippers."

Delmarva takes delivery on Conrail at its Edgemoor and Indian River plants, but both will go to NS. The utility takes significant tonnage from CSX producers **Anker Energy, ANR Coal** and **Mapco Coal**.

A CSX official commented recently, "They [Delmarva] have basically got a deal with NS. We are very, very close to getting a deal with them. We are tickled to death we will have this opportunity for the B&O producers."

CSX trains will interchange with NS at Hagerstown, the official said.

Offers due today for ARCO's coal properties

First-round, non-binding offers are due today for the Australian and U.S. coal assets of **ARCO, Inc.**

The original date was Sept. 29, but several potential bidders asked for more time, ARCO said. Five separate bid packages have been assembled. The three in the U.S. are the Powder River Basin mines (Black Thunder and Coal Creek), the West Elk mine in Colorado and **ARCO Coal**'s 65% share of **Canyon Fuels** *(see story below)*. The Australian operations are separated into a) ARCO's 80% share of the Gordonstone mine and b) its majority ownership of the Curragh mine and its 31% share of the Blair-Athol mine.

Gordonstone normally produces 5 million tons/yr but "has been shut down pending a decision from the joint venture partners on how and when to start it up again," ARCO said. "No decision date has been set. Termination notices have been given to production employees."

Blair-Athol is operated by **Rio Tinto** (owner of **Kennecott Energy** in the U.S.). ARCO, which operates Curragh, is seeking "a mediated resolution by the Industrial Relations Commission to differences that promoted [a] recent work action by employees," ARCO said.

While a sale of the Australian assets is considered highly probable, ARCO is expected to weigh the bids for the U.S. properties against the risks and rewards for spinning off the U.S. assets into a new company *(CO 10/28/96)*. The bidders purportedly must be able to offer a price that is equal to or better than what ARCO would have to pay in taxes from a sale, plus the value it thinks it can receive from a spin-off.

Investment advisors **J.P. Morgan & Co.** and **Goldman Sachs** reportedly sent the bid packages to more than 40 interested parties. Several names have been bandied about as likely bidders for all or some of the assets. These include **A.T. Massey Coal, Arch Coal, BHP, CONSOL**, Rio Tinto, and **Zeigler Coal Holding. Enron Corp.** is possible in an alliance with an operating partner. **Cyprus Amax Coal** is considered unlikely because of debt issues, while **Peabody Holding** could have problems, at least in the PRB, with market control issues under the Hart-Scott-Rodino Act.

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Coastal, Intermountain meet in court this week

A federal judge in Salt Lake City this week will hear arguments in a high-profile contract dispute between **Intermountain Power Agency** and **Coastal States Energy Co.** (CSEC).

At issue is whether arbitration should be stayed pending a resolution of

People in Coal

Kevin Vesperman has been named general manager of fossil fuel procurement at **Wisconsin Power & Light**, replacing ***Bill Knight***, who recently joined **Carolina Power & Light**.

Vesperman most recently was director of development for **ENSERV**, an affiliate of **Heartland Energy Group**, which in turn is a subsidiary of **WPL Holdings**. Heartland houses WPL's non-regulated energy industry activities.

Tom Tabacchi on Nov. 1 will join **Quaker Coal** as president of a newly formed subsidiary, **Quaker Coal Sales**, confirms Quaker's owner, ***Donn Chickering***.

The sales unit headquarters will be located in Abingdon, Va., where Tabacchi lives. As reported earlier, Tabacchi late this month retires as executive VP of sales at **Pittston Coal** after 32 years with the company *(CO 9/22)*. "Tom is the preeminent coal marketing person in the industry," Chickering said. "I have been trying to work with Tom for ten years. I have always admired his work. He will add immeasurably to the success of Quaker Coal."

Richard Navarre has been named president of **Peabody Energy Solutions**. He will be in charge of restructuring coal supply agreements on behalf of **Peabody Holding**. He'll be doing a lot of work with Peabody's power marketing affiliate, **Citizens Power**. Navarre has also been appointed as senior vice president of **Peabody COALSALES**. He had lately been a vice-president for finance at Peabody.

Mike Hardig, the vice president of domestic sales at **United Coal**, has resigned as of Oct. 10 and is pursuing new opportunities. The 14-year company veteran said his resignation is not directly due to the recent takeover of United by **A.T. Massey Coal**. The ownership change has instead triggered a desire to re-look at his career direction. He can be reached at his home at 606-331-1793.

Orion Resources has added a new salesman and changed offices. Orion represents **Battle Ridge Companies, Princess Beverly Coal, Chicopee Coal** and **Deep Ford Coal**. ***Dave Jolliffe***, who had been in sales a few years ago at NERCO Coal, is the new man. He most recently was doing production work at Princess Beverly. Orion's new address is: Suite 1290, United Center, 500 Virginia St. East, Charleston, WV 25301; (voice) 304-345-6381, (fax) 304-345-6382.

Jim Cooper, a former consultant and production official at **Energy Fuels**, has hired on as general manager of **Lorencito Coal**. Lorencito got the permits for and is getting close to beginning operations at a property in the Raton Basin in Colorado *(CO 8/18)*. This would be a combination of surface and deep mining.

The annual **Southern Coals Conference** is coming up Oct. 15-16 at the Queen City Club in Cincinnati. Speakers are: ***R. Branson Williams***, a fuels specialist at **Alabama Electric**; ***Kevin Cardwell***, head of fossil fuels at **Carolina Power & Light**; and ***Paul Jacob*** of **Citizens Power**. For more on the conference, call 513-451-8326.

1995 lawsuits involving two lo rm, above-market coal supply contracts at IPA's Intermountain power plant.

Coastal Corp. sold CSEC—including the two contracts and the Sufco and Skyline mines that supply them—to **Canyon Fuels LLC** in late 1996 *(CO 1/6/97, 12/23/96)*. Canyon, owned by **ARCO Coal** and **ITOCHU Corp.**, paid $615 million after Coastal agreed to indemnify them against loss of revenue should IPA prevail in the contract dispute.

As part of that indemnification, Coastal "has assumed control" of the dispute and "continues to have certain responsibilities" for the contracts, Coastal said in its second quarter 10-Q statement. IPA sued CSEC in 1995, asserting the right to audit CSEC books going back to 1983 to see if a basis exists for a gross inequity claim. CSEC filed a counter suit, saying IPA wrongfully withheld a portion of the contract payments *(CO 6/2/97)*.

As first reported by *Coal Outlook* in early June, IPA earlier this year lodged the gross inequity claim even though the lawsuits are still pending in federal court in Salt Lake City. Last July the utility demanded arbitration, "asserting a claim of gross inequity under the contracts requiring a reduction in the purchase price of coal sold before and after the sale of these coal operations [to Canyon Fuels]," the 10-Q stated.

Coastal, the 10-Q continues, "believes that no gross inequity has occurred and that it should prevail in the arbitration on the merits." The hearing, set for Friday, Oct. 17, will focus on Coastal's motion to stay the arbitration until the pending lawsuits are resolved. Trial of the lawsuits is set for next May.

Ironically, the hearing is occurring in the same week that **ARCO Inc.**, through its financial advisors, is taking first-round, non-binding offers for its Australian and U.S. coal assets, including ARCO Coal's 65% share of Canyon Fuels *(see story, Page 5)*.

Sufco and Skyline together supply about 2 million tons/yr to IPA's Intermountain power plant in Utah. In the first half of 1997, the weighted average delivered price of 1.2 million tons delivered under those contracts was $40/ton or 175¢/mmBtu. Average delivered prices under another half-dozen contracts ranged from $23.54 to $35.85/ton.

Marketscoop

High-quality, low-ash, -1%-sulfur, 12,700-13,000-Btu/lb coals in Central Appalachia are trading in the $26.00 to $27.50/ton range, according to several coal producers. And one producer claims $28/ton for an order for 12,900-Btu/lb, 1.2-lbs compliance coal for delivery after the first of the year.

These prices indicate a firming in the market that is having a limited impact on lower-Btu coals. Prices for rail-origin coal in the CSX/Big Sandy and NS/Thacker Kenova districts have been raised by 25 cents per ton to reflect this firming trend. Prices in the Big Sandy/Huntington index are up by 50 cents/ton for compliance coal only. While some producers suggest pricing 50 cents to a dollar higher than this, it was not possible to confirm those higher numbers.

Even producers disagree on availability. "There is not much coal available now to year end," said one sales executive. Just the threat of **Ontario Hydro** buying more Central Appalachian coal in 1998 has worried some buyers, leading them to "get what they need while they can," he added. But a second source, a buyer of third party coals for movement to the river system, said, "There is more compliance coal out there than we need to buy."

Pittsburgh seam coals remain tight, although buyers disagree on

Central Appalachia Coal Index

These are Coal Outlook's estimates for current spot coal prices, per ton and FOB railcar, for steam coals moving out of the origin districts listed below. For this chart, assume 12% ash and up to 1.5 lbs/mmBtu of SO_2.

CSX - Big Sandy District	
12,000 Btu/lb	$21.25
12,500 Btu/lb	$23.25
NS - Thacker/Kenova	
12,000 Btu/lb	$22.25
12,500 Btu/lb	$24.25

Pasha Publications, 1600 Wilson Boulevard, Suite 600, Arlington, Va. 22209

SCS in market for Georgia P er

Southern Company Services is taking offers to supply spot coal to Georgia Power.

Bids are due Nov. 4, and delivery will begin Jan. 1. The solicitation does not specify tonnage but says the utility is considering purchases for three months and/ or six months. All plants in the system are included.

Specs are 12,000 Btu/lb, 3% sulfur, 12% ash and 10% moisture, sized 3 x 0. The Arkwright and Mitchell plants require a minimum sulfur content of 1.25-1.5%. SCS also will consider alternate specs of 9,500 Btu/lb, 3% sulfur, 25% ash, with no moisture max, specs "broad enough to encompass a variety of qualities in all specifications, particularly ash and Btu/lb," the company said.

Prices should be firm with no escalation. Proposals will be evaluated on a delivered $/mmBtu basis. Both CSX-origin and Norfolk Southern-origin coals will be considered. Five of the plants are captive to NS, two are on CSX, and two can take delivery by either carrier. Recently the utility lined up truck deliveries of Tennessee coal to Hammond *(CO 9/1)*. It also said it would consider CSX-origin coal in a three-year solicitation for the Wansley station, located on NS *(CO 9/29)*.

Georgia Power took 5.9 million tons of spot coal in the first six months of 1997, according to **FERC** data. By far the largest amount—3.1 million tons—went to Scherer at an average delivered cost of 152.26 cents/ mmBtu. Major tonnages also went to Harlee Branch, Bowen and Yates, at prices ranging from 129.01 cents/ mmBtu at Bowen to 149.7 cents/mmBtu at Branch.

Most spot purchases are made from Central Appalachian producers, but Scherer received 2.6 million tons of Powder River Basin coal on short-term contracts in the first half of 1997.

For more, contact David Hardin at 205-257-6604.

No barges available, officials say

The river barge industry is experiencing a severe shortage that may last until the end of the year.

"Right now we have no equipment to give anybody," said one barge executive, "and I don't think we'll have anything until the end of the quarter."

The official attributed the shortage to a number of conditions. "We all got behind while repair work was being done on the McAlpine Lock and Lock 27," he said. "Then in September we had poor river conditions and the water was down, so we had to do light loading.

"On the demand side, it's the harvest season for grain, but coal shippers also have stepped up their demand," he said. "It seems like the utilities let their inventories run down. I know the shippers we supply are asking for tremendous amounts. The fallout from **Union Pacific** delivery problems may have been a part of it, as well.

"All I know is we have no barges to give," he said. "Overall, the barge supply is very close to demand, and when there's a hiccup in the market, you run into these shortages."

An official with another barge company commented, "There are not enough barges anywhere in the system."

He said there definitely has been impact from the lock repairs, but he has seen no evidence of increased business to make up for shortfalls on UP. "I'll bet the shortage disappears by mid-December," he said. "When the grain harvest is in, it will get back to normal."

Pinckneyville. That line carried c om Fidelity until the mine ceased production in 1991, and IC has been trying to abandon the line for more than two years.

According to IC spokesperson Ann Thoma, "It is Freeman's decision whether they can serve a customer. When they make a final determination on the mine, we will make a final determination on the status of the track. There is still some discussion behind the scenes on that. When they give us a final decision, we'll act on it."

IC took steps to abandon the line in 1995, but the **Interstate Commerce Commission**, at the request of Freeman, delayed the action for two years while directing the coal company to pay IC a $70,894 annual subsidy. When the ICC order expired last spring, Freeman petitioned the **Surface Transportation Board** to extend it, saying it had initiated steps to reopen the mine, contingent on landing a contract with **Archer Daniels Midland Co.** *(CO 4/28)*.

The STB denied the petition, but Freeman and IC agreed to extend the subsidy payments through September *(CO 7/28, 6/9)*. No arrangement has been made to extend the subsidy past Sept. 30, Thoma said.

Though it is not committed to mining again at Fidelity, the company is taking steps to do so. **Freeman Resources**, an affiliate of Freeman United, applied on Sept. 19 with the state of Illinois for a permit on a new surface mine next to Fidelity. The 482-acre surface area that Freeman is permitting would involve mining of the Herrin No. 6 seam. It will take four to eight months for the permit to be issued. This is being called the Walker Creek mine.

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ILWU, PCS reach deal; LAXT loads first ship

The **International Longshore and Warehouse Union** voted Oct. 9 to accept an agreement with **Pacific Carbon Services** regarding operation of the **Los Angeles Export Terminal**.

The vote came literally on the eve of the first formal terminal operation, the loading of export coal onto the first ship. The new, $200 million facility loaded 62,700 metric tons onto the *Bel Best*, beginning Oct. 10 and concluding on Tuesday, Oct. 14. The coal was supplied by **Canyon Fuel** from the Skyline mine and is bound for Japanese utility **Tohoku Electric Power**.

"We only scheduled one ship," said LAXT spokesperson Robert Alaniz. "We wanted to observe how everything worked at the terminal. There were a few minor glitches, but we got those worked out."

Terminal Manager Lou Rommel commented, "We are extremely pleased that the testing and commissioning is going smoothly."

No further ships were scheduled as of last week. Alaniz said the terminal is working with **Union Pacific Railroad** to iron out problems with its delivery so regular shipments can resume. "UP service has gotten better than it was a month ago," Alaniz said. One facet of UP's Service Recovery Plan released Oct. 1 was a temporary suspension of shipments of Utah and Colorado coal to the West Coast for export *(CO 10/6)*.

Pacific Carbon has contracted to operate the land side of the terminal, while **Hall-Buck Marine** has the contract to handle the ship loading segment of the operation. Hall-Buck has a contract with the ILWU, but PCS, a unit of **Savage Industries**, hired about 50 non-union workers to service its portion of the facility. Talks between PCS and ILWU went on for months while the union used various means to pressure the company into an agreement.

PCS obtained a federal injunction barring any picketing activities by the union pending the outcome of an unfair labor practices complaint filed by the company with the **National Labor Relations Board** *(CO 10/6)*.

ILWU spokesperson Peter Peyton termed the deal with PCS a "significant agreement" that assures the union the shiploading jobs will remain with the union in case Hall-Buck Marine is replaced.

A source said it also increases the scope of ILWU activities at the site to include part of the beltway on the land side. The other PCS activities remain non-union. Both sides agreed to drop pending litigation, the source said.