# Document Information Form

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ACT/02 /005 #2

into lower costs for power plant proj... .

Under current plans, coal-fired power capacity in Japan should explode from the current 20 GW to 44 GW by the end of 2006. This will drive coal needs from 43 million tonnes/yr now to 77 million tonnes/yr. Virtually all of this demand will be met with imports. With the closing of the Miike mine this spring, Japan is down to only two operating domestic mines.

**Met coal prospects more of a wash**

The U.S. share of the Japanese coking coal market continued to decline this year. Katsumi Takahisa of **ITOCHU Corp.** noted the U.S. will supply only 7% of the coal needs of Japanese steel mills in the 1997 fiscal year, which began April 1. That is down from a share of 10% in FY 1996 and 11% in FY 1995. The key reason for the drop is high transportation costs compared to coals out of Australia, the primary met coal supplier to Japan.

Another factor working against the U.S. is that the mills took some test shipments of Western U.S. coals in the early 1990s to see if they worked in pulverized coal injection units. They did not. Contamination of the coal was a big problem. Also, Western U.S. ...s do not make a good blend coal for coking purposes, Takahisa added.

In the last couple of years, however, some of the mills have been reconsidering Western coals, with an eye on diversification of supply. Some test shipments resulted, and in FY 1996 the mills took a total of 600,000 tonnes of Western U.S. coal. Some ongoing negotiations between coal suppliers and the mills will determine whether those shipments will continue, Takahisa said. He noted that since some of the Japanese steel mills are getting into the IPP business, U.S. suppliers can ship steam coal to IPP plants, especially those in northern Japan, which is a bit closer to the U.S. and the most distant from Australia.

One innovative possibility involves the fact that Japan takes a lot of petroleum coke off West Coast origins. That offers U.S. coal producers a chance to combine loads of coal and petroleum coke in ships, thus cutting transportation costs, Takahisa said.

ITOCHU is a Japanese trading company that in December 1996 bought, with **ARCO Coal**, the **Coastal Coal** mines in Utah. ITOCHU also coordinates the investments in LAXT of all the Japanese trading houses.

## Long Beach: We won't give up the (coal) ship!

The **Port of Long Beach** will not give up "market share" and will do "whatever is necessary" to retain coal business, said Port official Don Wylie.

Wylie spoke at a recent conference sponsored by the **Western Coal Council** - a conference dominated by talk of the new LAXT export coal terminal at the Port of Los Angeles. Wylie noted Long Beach handled 2.3 million tons of export coal last year at its Pier G facility, which is operated by **Metropolitan Stevedore Co.** He added Long Beach is in the middle of an "aggressive" modernization program so it can compete effectively for coal business.

Highlights include:

• The ports in Long Beach and Los Angeles are investing in the massive Alameda project, an ongoing effort to combine three rail lines into one along a 20-mile corridor running south out of the Los Angeles area. The project will mean faster train turnaround times for both ports. As part of the Alameda project, Long Beach will complete by the end of 1998 six "grade separation" projects; trains will no longer have to stop for vehicular traffic when entering the port area.

• Capacity has been increased by 20% for storing trains in the Long Beach port's rail yard, and the yard can now store two, 100-car unit trains. Also, the rotary dumper can now handle two, 100-car trains in a single, eight-hour shift.

• A coal storage shed was added in 1994 that can store 225,000 tons of coal and 425,000 tons of petcoke. Coal can be custom blended in this facility.

• A new coal sampling system was added in 1995.

### Mine Developments

**<u>Zeigler might face competition</u>: Zeigler Coal Holding** could face competition when the **Bureau of Land Management** takes bids July 29 for a Wyoming coal tract.

Located adjacent to Zeigler's North Rochelle mine, the tract contains an estimated 149 million tons of coal. Zeigler sought the lease sale to add reserves to North Rochelle, which is now in development.

There is no guarantee that competing bids will come in, but two companies have shown interest in the tract, an official said. He did not

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lease application by **Evergreen Enterprises**.

This action followed a recommendation by the **Powder River Basin Regional Coal Team**, which in April said the Evergreen application was deficient in several respects *(CO 4/28)*.

Evergreen is owned by Thomas Woodward, a Wyoming geologist *(CO 4/7 **Supplement**)*. The company wanted to lease an estimated 675 million acres of coal near **Kerr-McGee Coal**'s Jacobs Ranch mine.

**<u>P&M bumps McKinley output target</u>:** Last January **Pittsburg & Midway Coal Mining** expected to produce about 5.3 million tons this year at its McKinley mine in New Mexico, but recently the company hiked the production target to nearly 7.1 million tons.

Arizona utility customers have had higher-than-expected burns this year, explained P&M's Fred Meurer. The extra burn stems from an increase in natural gas prices and lower-than-expected hydroelectric availability in the West, said Meurer.

P&M has penciled in about 7.5 million tons at McKinley next year. Meurer said the 1997 and 1998 figures demonstrate that periodic rumors about geology problems at McKinley are not true.

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There is no guarantee that competing bids will come in, but two companies have shown interest in the tract, an official said. He did not name the companies. North Rochelle lies between **ARCO Coal**'s Black Thunder mine to the north and **Powder River Coal**'s North Antelope and Rochelle mines to the south. Powder River is a **Peabody Holding** subsidiary.

The lease sale had been set this week, but the date was changed due to scheduling problems.

__BLM rejects PRB coal lease bid__: The Wyoming office of the federal **Bureau of Land Management** last month rejected a lease application by **Evergreen Enterprises**.

This action followed a recommendation by the **Powder River Basin Regional Coal Team**, which in April said the Evergreen application was deficient in several respects *(CO 4/28)*.

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# .adds new coal-fired units, sees low U.S. take

.wer will commission 3,000 MW of new .e this year, but don't look for any big U.S. .cause of that, said KEPCO's Jong-Hoon

.ral manager of KEPCO's North American pro- .ice in Canada, spoke at the recent coal export .in Utah. In addition to the new capacity this year, Park .PCO will add another 5,600 MW of coal capacity .n 1998 and 2001. The new additions should drive the .an state utility's coal consumption from 22.6 million metric .s/yr now to 25.7 million in 1998, and 46 million in 2005.

The utility now takes coal under long-term contracts with suppliers in seven nations. In the U.S. contracts are with **Usibelli Coal** in Alaska and **Cyprus Amax Coal** out of the Plateau mine in Utah. Park noted talks are going on with Cyprus about switching the source under the contract from Plateau, which might be shut late this year, to the new Willow Creek mine in Utah. Total U.S take now is only about 1 million tonnes/yr.

For new coal demand, KEPCO hopes to move somewhat away from Australia, which supplies about 50% of its coal needs, and diversify with new contracts sourced primarily out of China and Indonesia. Park said the U.S. will have a tough time competing with producing countries with shorter freight hauls. He did note that to secure stability of supply KEPCO has invested in three Australian coal mines and could invest in others, including in the U.S.

U.S. coals generally have high volatility and moisture that make for low "combustion efficiency," Park said. Long rail hauls to West Coast export terminals don't help, he added. If rail costs can be cut, and the new LAXT export terminal can slash transloading costs, "KEPCO will certainly increase imports from the U.S. to diversify supply sources," Park said.

To combat pollution, KEPCO is looking at scrubbers for new plants. Also, a new, 200-MW unit using fluidized-bed combustion is due on line in 1998, and the utility also is looking into the feasibility of a 300-MW, integrated gasification combined cycle plant that might be in operation by 2005. Even with this sulfur-control equipment, the emphasis still will be on burning low-sulfur coal, Park added.

KEPCO is investing heavily to support its new power plants. For example, it is building four new Capesize vessels (135,000 deadweight tonnes apiece) to bring that coal in.

# U.S. steam coal looks good in Japan, met coal declines

New power plants in Japan likely mean a healthy increase in U.S. steam coal exports there, while the metallurgical coal market is more of a mixed bag.

That was the message from two speakers at the recent "Pacific Coal Forum" in Utah, which was sponsored by the **Western Coal Council**.

Historically U.S. producers have won only a small chunk of the Japanese steam market, noted Katsuhiko Saito, managing director of **Japan Coal Development**. Most of Japan's steam coal is imported from Australia.

An Australian price advantage approaching $10/tonne, which existed in the 1980s, has narrowed, and from 1990 to the present U.S. and Australian prices have been largely even. Much of the reason is U.S. productivity gains through the use of longwalls, Saito noted. Japanese utilities take about 3.5 million tonnes/yr of U.S. thermal coal.

A key factor in keeping U.S. coal competitive for steam coal demand is the new LAXT export terminal at Los Angeles, Saito added. LAXT, with its rapid loading capabilities, will cut transloading costs and make U.S. coals more competitive. LAXT expects to load its first ship in October *(CO 6/23)*.

Several Japanese companies invested in the terminal, including Saito's company. One conference attender told *Coal Outlook* that the pressure is now definitely on for the terminal partners to add Phase 2 of the project, thereby spreading fixed costs over more tons. Saito confirmed expansion is much on everybody's mind in order to drive down costs. No announcement regarding Phase 2 commitments has been made, however.

Saito laid out plans by the Japanese utilities for new coal-fired power plants over the next few years. They are:

| Utility | Plant | MW | Due on-line |
|---|---|---|---|
| *Hokkaido* | Tomato-atsuma No. 3 | 85 | 1998 |
| *Tohuku* | Haranomachi No. 1 | 1,000 | 1997 |
| | Haranomachi No.2 | 1,000 | 1998 |
| *Tokyo* | Hirono No. 5 | 600 | 2001 |
| *Chubu* | Hekinan No. 4 | 1,000 | 2001 |
| *Hokuriki* | Nanao Ohta No. 2 | 700 | 1998 |
| | Tsuruga No. 2 | 700 | 2000 |
| *Chugoku* | Misumi No. 1 | 1,000 | 1998 |
| | Ohsaki No. 1-1 | 250 | 2000 |
| *Shikoku* | Tachibanawann | 700 | 2000 |
| *Kyuushuu* | Karitashinn No. 1 | 360 | 2000 |
| | Reihoku No. 2 | 700 | 2001 |
| *Okinawa* | Kin No. 1 | 220 | 2001 |
| *EPDC* | Matsuura No. 2 | 1,000 | 1997 |
| | Tachibanawann No. 1 | 1,050 | 2000 |
| | Tachibanawann No. 2 | 1,050 | 2001 |
| *IPPs* | Six unnamed units | 777 | 1999-2001 |

Saito noted independent power producers (IPP) are a relatively new phenomenon created by recent deregulation of the Japanese utility markets. Some of the IPPs are steel producers who can leverage their met coal importing infrastructure

*Chairman's Message*
*Continued from page 1*

affairs of the Association under control during the interim period. She managed the logistics of relocating the UMA offices, including new furnishings, and still managed the numerous daily details of running an organization our size. Thank you, Sharon, for a job well done.

So now, we have the new President to lead the Association into the next century. When Mr. Bingham calls on each of us for ideas, committee assignments and other assistance, let's give him our full support.

Welcome Tom.

*Mr. Landa is Vice President and General Manager for Barrick Gold Corporation's Mercur Gold Mine near Tooele, Utah.*

# Company Matters

## KENNECOTT'S PARENT REORGANIZES: KENNECOTT CORPORATION CLOSES

As a result of management reorganization by Kennecott's parent company, RTZ-CRA, the Salt Lake City Corporate headquarters office is being closed.

A realignment of worldwide operations into six global product-based (commodity) groups means Kennecott Utah Copper, based in Magna, Utah, and Kennecott Minerals Company, Salt Lake City, will become part of the copper business group based in London, England. Kennecott Energy Company, based in Gillette, Wyoming will become part of the global energy group in Melbourne, Australia. Kennecott's operations will retain their own local management.

Due to the closure of the Corporate Offices, a number of employees will relocate to the Utah Copper operations. A significant number of personnel are being given the opportunity to transfer to other positions within Kennecott operations. Approximately 75 employees, primarily from Corporate and Utah Copper operations, will be reduced from the work force and will be eligible for appropriate severance benefits and outplacement services.

When reorganization is completed, 2500 Kennecott employees will remain in Utah, 800 will remain at Kennecott Minerals properties and 1000 at Kennecott Energy properties.

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## ARCO COAL AND ITOCHU UNITS ANNOUNCE NEW ORGANIZATION FOLLOWING COASTAL PURCHASE

ARCO Coal Company and ITOCHU Corporation completed the purchase of Coastal States Energy Corporation's western coal operations in December for $615 million.

Comprised primarily of three underground coal mines in central Utah, the operations are now held by Canyon Fuel Company LLC, which is owned by subsidiaries of ARCO, with a 65 percent interest and ITOCHU, holding a 35 percent interest.

ARCO Coal, an operating division of ARCO, will be the manager of the new company. Also acquired is Coastal's 9 percent share in the new Los Angeles Export Terminal.

ARCO and ITOCHU have also announced the operating management of Canyon Fuel.

**Richard D. Pick** has been named President and CEO.

Those reporting to Mr. Pick will be: **Rick Olsen,** General Manager of the Soldier Canyon Mine; **Ken May,** General Manager of the SUFCO Mine; **Dan Meadors,** General Manager of the Skyline Mine; **Ken Payne,** Manager of Major Projects for Canyon Fuel; **Jim Hunter,** Business Manager, and **Kerry Frame,** Planning Manager.

## ENERGY WEST WINS SAFETY HONOR

PacifiCorp's Energy West Mining Co. in Emery County ranks first in mine safety, based in data from the U.S. Department of Labor's Mine Safety and Health Administration.

Energy West has the lowest "intermediate injury rate" among a ranking of the 25 largest coal producers in the country. The injury rate is based on grouping fatalities, permanent disabilities and lost-time injuries.

PacifiCorp, the Portland, Oregon-based parent company of Utah Power, operates two mines in Emery County that supply coal to two of the company's Utah-based power plants, Huntington Canyon and Hunter.

## KENNECOTT UTAH COPPER RECEIVES HEALTH AND FITNESS AWARD

Kennecott Utah Copper has received the 1996 Worksite Health Promotion Award from the Governor's Council on Health and Physical Fitness.

The award honors companies throughout Utah for their efforts in promoting health and physical fitness among their employees by offering various health screenings, incentives, educational classes, and other activities and employee events.

At Kennecott Utah Copper, health screenings include cholesterol, body composition, blood pressure, and fitness. The company's education program includes classes in smoking cessation, healthy eating, weight control, exercise, stress, back care, and alcohol and drug abuse. An employee Health and Fitness Day and a Fun Walk/Run are among the company's special fitness events.

## LUNDIN BUYS ENERGY FUELS

Lundin Group, a Vancouver-based investment firm, finally emerged after months of delays as the sole bidder to acquire the assets of Energy Fuels Nuclear, Inc. at a bankruptcy hearing.

Lundin formed a branch corporation called International Uranium Holdings (IUH) with the intent of purchasing Energy Fuels' assets, including the mill at Blanding.

**Rick Townley** of Energy Fuels told the *San Miguel Basin Forum* in December that IUH intends... "to start up certain mines immediately after the closing is final and to begin mill operations as soon as those mines provide ore to the mill."