vices for **United Power Inc.** and veteran of the over-the-counter coal trading market. Vaughn outlined one of the major benefits of the OTC market — its value as a hedging mechanism against market volatility caused by supply disruptions, regional demand spikes, power prices, natural gas prices and other factors.

While noting that trading volumes were perhaps not as heavy as they were two years ago — mainly due to the exit from or reduced role in coal trading by some of the heaviest hitters like **Enron, El Paso, Aquila, Dynegy, TXU** and others — the market was still alive and price volatility did exist, Vaughn said. Volatility is seen as important for the attraction of the more speculative energy traders, he noted.

Vaughn also made a point of noting that there were far more than a handful of coal specifications trading, contrary to what some in the coal industry believe. While it was true that the NYMEX look-alike, eastern rail and Powder River Basin coals were the most heavily traded, Northern App, Illinois Basin and other coals also traded.

Following Vaughn was Mike Reed, VP of research and analysis at **APB Financial LLC**, another brokerage with a substantial coal presence.

Reed told participants about the work APB was doing on trading on heat rate, and how that could be used for coal, a discussion of spread options and a discussion of **New York Mercantile Exchange** options.

The heat rate is the spread between fuel and power, which translates into Btu per kilowatt-hour of power, and measures the efficiency of converting fuel to power.

Among the spread options are trades based on time, conversion, quality and location. Utilizing spread options allows the party to "minimize coal cost or maximize coal price by delta hedging the spread between two coals [and] converts high-risk physical fix price exposure to lower-risk spread exposure," said Reed.

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Internal

SUPPLIERS

Canyon Fuel Co. set to idle Skyline mine in 2004

Canyon Fuel Co. said May 27 that it would idle its Skyline mine in Carbon County, Utah, by the second quarter of 2004 due to weakness in the Utah coal market. Canyon is 65% owned by **Arch Coal Inc.** and 35% owned by **Itochu Corp.** subsidiary **Itochu Coal Co.**

The mine will be idled in stages, the first of which is already under way. Skyline has 215 workers and last year produced roughly 2.2 million tons of coal. To the degree possible, Skyline's workers will be relocated to Canyon's other two Utah mines: Sufco in Sevier County, which employs approximately 295 people and produces more than seven million tons of coal/year; and Dugout Canyon in Carbon County, which employs approximately 155 people and produces more than three million tons/year.

Canyon sells its coal primarily to regional utilities and to a number of large industrial facilities in Utah, Nevada and California. Skyline coal also moved to the Pacific export market through the **Los Angeles Export Terminal (LAXT)**, in which Itochu also has an ownership stake. But West Coast coal exports shrunk to zero by late 2002 and this year, so much so that LAXT is closing its doors *(CO 5/19)*.

In commenting on the move, Arch President and CEO Steve Leer said, "While we regret the need for this action, we support Canyon Fuel's decision to idle the Skyline Mine. With production in the southern portion of the mine nearing an end, Canyon Fuel is faced with initiating expensive development work in a new reserve area to the north in order to keep the mine operational. Without a solid portfolio of baseload contracts and evidence of an improving Utah coal market, we simply cannot justify such an investment at this time. As other coal reserves in the region are depleted, we expect the Skyline reserves to become increasingly strategic. However, the mine could remain idle for a period of several years before resuming operation. The timing of its reopening will depend entirely on the market."

The first of Skyline's two continuous miners ceased operation earlier in May, and the second is expected to shut down in the third quarter. "The longwall is expected to finish mining the remaining panels within the current mining area in the second quarter of 2004, and will be shut down at that time," said Arch.

While it may be some time before market conditions allow Skyline to reopen, Leer remained optimistic on the mine's future. "We have a solid base of reserves at Skyline, and we expect the mine to resume production as a viable and competitive operation at some point in the future," he said.

The mine has a reserve base of about 50 million tons of very low-sulfur, bituminous coal.

Western Canadian completes report for proposed Wolverine mine

Western Canadian Coal's Wolverine Project geology report and independent third-party review is now complete and will form the basis of a feasibility study for mining the Perry Creek and EB deposits near Tumbler Ridge, British Columbia, the company said.

"Western is finalizing a feasibility study based on open-pit mining within the Perry Creek and EB deposits to achieve a production plan of 1.6 million tonnes of product per year for an initial 10-year project life," the Vancouver-based company said.

The company said in February that plans were well along for the mining project, with talks ongoing with possible project contractors *(PCT 2/18)*. Initial construction work was