Coal & Energy

Price report

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Market commentary

By Jim Thompson, jim.thompson@ihsmarkit.com

- Activists on the other side: Burn More Coal.
- It's the work of Fred Palmer and Steve Milloy.
- Coal should be embraced, not shunned.
- Be on the lookout for "green tariffs."

"The long and winding road that leads to your door will never disappear, I've seen that road before. It always leads me here – lead me to your door."
Lennon & McCartney

Activism is associated with coal's opponents rather than with its allies. But the long and winding road that brought two of the coal industry's most dedicated fighters together to form an activist shareholder effort called, unashamedly, Burn More Coal, describes a necessary path to any significant change in the trend toward industry-riddling electric utility coal plant closures.

Both Fred Palmer and Steve Milloy have fought for coal in multiple venues. Now they've taken the fight to Wall Street. By becoming shareholders in more than a dozen publicly owned electric utilities that have outlined plans to close coal-fired generating units, they've earned the right to be heard.

"Coal should be embraced by U.S. electric utilities, not shunned," Palmer said.

Even as the Department of Energy explores steps to slow, at least, the pace of coal plant closures, one horse after another jumps the fence. Wednesday saw AES unveil its goal to reduce its carbon intensity by 70% by 2030, largely by embracing renewable energy as a replacement for coal.

The queasiness of the Trump administration aside, utilities are sprinting to signal coal plant closures. "These announcements might not be daily, but they sure are weekly," Palmer said.

The impending closure of the Salt River Project-managed Navajo coal-fired station, for instance, points to a lack of effective pushback, he noted, expressing "amazement at the total lack of visibility" in "a principled effort to say it's wrong."

Natgas continues its roller coaster ride

By Steve Hooks,
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What a difference a day makes, it all depends on winter and all that. Natural gas prices are bouncing around like November weather reports.

Henry Hub gas, which approached $5/MMBtu for the winter-month contracts on Wednesday, gave back most of their gains as of late Thursday, only to recover some Friday morning.

Meanwhile, utilities, at least in the Southeast, "have been pretty hot on buying coal," one coal supplier said, "taking the maximums, trying to build up their stockpiles" for winter.

And it once again depends on the winter for U.S. utilities and coal prices, even as international markets soften, with the daily API 2 backing off to $85.55/metric tonne on Thursday, with the week index at $88.72 and the month index at $93.03. In Europe, ARA stockpiles are bulging, and sources have said that demand there and into India has dropped off for U.S. thermal coals for early 2019, even as

continued on page 4

Customer notice: IHS Markit's coal price reporting service completes fourth annual assurance review; adds four new markers to the in-scope benchmarks

The assurance review was conducted by independent professional services firm PwC and examined the policies, processes and controls that the IHS Markit coal team uses to establish price benchmarks for thermal coal. These policies, processes and controls are designed to ensure compliance with the principles for price reporting agencies (PRAs) set out by the International Organization of Securities Commissions (IOSCO). A "reasonable assurance" review was carried out for those benchmarks already in-scope, as recommended by IOSCO. In addition, the IHS McCloskey Northwest Europe Steam Coal (5,700kc min) marker; IHS McCloskey Richards Bay (5,700kc NAR min) FOB marker; NAPP FOB Rail marker; and ILB FOB Barge marker were subjected to a limited assurance review.

To download the report visit our website: https://www.ihs.com/products/coal-price-data-indexes.html

Hitts keep coming

In the meantime, the Sierra Club just this week released a white paper that seeks to accelerate "energy transition" by "showing utilities and electricity market stakeholders how to harness financial tools to cost effectively accelerate the timeline for coal plant retirements, and build out cheap clean energy resources like solar and wind."

The Sierras suggest "green tariffs" as one mechanism. Such tariff is defined in the white paper as "a mechanism of creating a specialized rate class or energy delivery option for certain large corporate buyers, where the energy procured for and sold to those buyers has specific green characteristics."

The club cites among its achievements the retirement of 276 coal-fired power plants. It also notes that if the result of its "work keeps up at its current pace and we maintain the average rate of coal retirements that we've seen over the past three years, 100% of U.S. coal will be retired by 2035."

Mary Anne Hitt, director of the Sierras' Beyond Coal Campaign, adds – "You read that right. We are on track to meet the IPCC's requirement of totally phasing out coal in the U.S. in 17 years."

And a little more – "The tough talk from Donald Trump, and the allies of the coal industry in his administration, haven't slowed the pace of coal retirements. In fact, more than 40 coal plants have retired since Trump was elected, and they're being phased out at the same pace as they were before he took office."

Against that backdrop, Palmer and Milloy contend that inaction on the part of coal's proponents isn't at all a viable choice.

In addition to taking steps to change electric generator behavior on coal plant closures, the pair want their efforts to educate utilities, regulators, shareholders and ratepayers on the value of coal-fired generation. "We get to educate on the benefits of coal," Palmer said.

Burn More Coal's first public move was to file this week a shareholder proposal with Duke Energy that asks the utility to perform a "Greenwashing Audit" to delineate the costs and benefits to shareholders of coal plant closures earmarked to reduce carbon dioxide emissions.

"Though existing coal plants are dramatically less expensive than any form of new electricity generation, Duke is planning to shutter its 14 coal plants — even as 1,600 others are being built around the world," the proposal argues. "China, alone, is adding coal capacity worth the entire U.S. coal fleet. What benefit is Duke producing to anyone or anything by shuttering its coal plants? Is any claimed benefit real or is it greenwashing?"

An annual accounting

The shareholders want Duke, beginning in 2019, to publish an annual report "of actually incurred company costs and associated actual/significant benefits accruing to shareholders, public health and the environment from Duke's environment-related

activities that are voluntary and exceed federal/state regulatory requirements."

The Duke proposal is one of many Burn More Coal intends to make to the utilities in which it has taken shares. The proposal rests on a straightforward argument – publicly owned electric utilities have a clear mission.

"Duke's purpose is to generate profits from generating affordable and reliable electricity for ratepayers while obeying applicable laws and regulations."

Burn More Coal cites the U.S. Department of Energy's National Coal Council 2018 report, "Power Reset," to assert – "Maintaining coal plants is the least expensive option for generating power," but "Duke's management intends to shutter its coal plants in hopes of somehow altering global climate change."

The proposal continues – "Corporate managements sometimes engage in 'greenwashing' i.e., spending shareholder money on schemes ostensibly environment-related, but really undertaken merely for the purpose of improving the public image of management.

"Such insincere 'green' posturing and associated touting of alleged, but actually imaginary benefits to public health and the environment may harm shareholders by distracting management, wasting corporate assets, ripping off ratepayers and deceiving shareholders and the public."

Burn More Coal notes that, in Duke's 2017 Climate Report to Shareholders, the utility wrote: "We have reduced carbon dioxide emissions by 31% since 2005, and we have set our sights on greater progress."

"No law or regulation required this reduction," according to the shareholder proposal. "Shareholders should have an honest accounting of this action's cost and the action's actual and current (vs. hypothetical or imagined) benefits. After all, Duke's reduction in CO_2 emissions is not an obvious benefit to anyone or anything."

Some will sit straight in their chairs and cry "Aha, but!" at the latter point. Burn More Coal essentially argues that throwing a pebble in a pool does nothing meaningful to raise its water level. And if the pebble is priced more like a diamond ...

Here is the Burn More Coal explanation – "Duke says its 'goal' is to reduce CO_2 emissions 40% from 2005 levels by 2030. No law or regulation requires this action. What will be the actual benefit to anyone or anything of it?

"Global CO_2 emissions are higher now than ever and increasing. China is reportedly now adding coal plant capacity equal to the entire U.S. coal fleet. Around the world, there are reportedly 1,100 coal plants under construction.

"In comparison, Duke operates a mere 14 coal plants. So what are the actual benefits to ratepayers, shareholders and the environment of meeting Duke's goal? By how much, in what way, and when will any of these activities reduce or alter climate change, for example?"

Now it's personal

Palmer and Milloy used personal funds to invest in the electric utilities to which it will make proposals. They've done so because "we believe in (the benefits of coal) deeply," Palmer said. Preservation of coal-fired generation "is good for people, it's good for the environment and it's good for growth."

There is an old and instructive joke about the necessary ingredients for a breakfast of ham and eggs. You needed both a pig and a chicken to make the meal happen. The difference, of course – the chicken was involved, but the pig... now the pig was really committed.

The Burn More Coal effort is an acknowledgment that coal must forge its own existential strategy. While scores of businesses and most of the world benefit from coal, preservation of its usage is, to state the obvious, most critical to the industry itself. Palmer and Milloy embrace their responsibility to be aggressive advocates. They understand that coal can't wait for allies to willingly share in the lifting.

"The problem faced by the coal industry is utility industry management — which, for the sake of political correctness and personal reputation management, has announced coal cuts much larger than even contemplated by Obama's Clean Power Plan," Milloy said.

"There is no science, economics or reality that justifies these cuts. Because the coal industry is understandably reluctant to pressure utility managements on these points, we will."

Coal is life

Both men have been employed by coal-producing companies – Palmer by Peabody Energy and Milloy by Murray Energy. But the pair have diverse employment backgrounds.

Prior to joining Peabody Energy, where he served as a member of the executive leadership team, Palmer served for five years as general counsel and 15 years as CEO of Western Fuels Association. While at Western Fuels, Palmer served on the board of directors of the National Mining Association and in that capacity served as chair of the NMA Legal Committee with a focus on coal and climate policies during the Clinton/Gore years in the 1990s.

Palmer is also a member of the National Coal Council, where he is chairman of the New Markets for Coal Subcommittee, Coal Policy Committee. During his service to Peabody, he was Peabody's representative on the board of directors of the World Coal Association and served as its chairman from November 2010 to November 2012.

Palmer also represented Peabody on the board of the FutureGen Alliance from its formation until June 2015. Additionally, he is a member of the California and D.C. Bar Associations.

Milloy is a securities lawyer, biostatistician, author, activist and publisher of JunkScience.com, the web site that popularized the term "junk science." Milloy co-founded the former Free Enterprise Action Fund (FEAOX), a publicly traded mutual fund that successfully advocated as a corporate shareholder against climate alarmism during the 2000s.

FEAOX, among its other accomplishments, successfully pressured companies like ConocoPhillips, Caterpillar and BP to drop out of U.S. Climate Action Partnership (USCAP), which brought about the demise of what Burn More Coal describes as a corporate-green activist partnership formed to lobby for cap-and-trade. Milloy authored the first SEC-approved climate skeptic shareholder proposals.

As a member of President Trump's EPA transition team, Milloy advocated for many of the regulatory reforms now being implemented at EPA. Milloy is also the author of several books on regulation and climate issues.

"We're activists, and we're being active," Palmer said of Burn More Coal. He fights, he said, for "the best fuel for electricity created by our Creator."

"Utility managements have legal and fiduciary obligations to be honest and to act in the best interests of their shareholders," Milloy said. He expects the "coal cut folly" to be "fully exposed and prosecuted," which will move utility managements "to bow to the reality that coal is a vital, irreplaceable part of affordable and reliable electricity generation."

In addition to being unapologetic fighters for coal, Palmer and Milloy see themselves as fighters for people – for a good life. At the top of the website, burnmorecoal.com – "Electricity is life. Coal is electricity. Coal is life."

While the road might be long and winding, the destination is worth the trip for Palmer and Milloy. Their goal is to establish that coal can benefit from effective activism.

Natgas continues... continued from page 1

Northern Appalachian and Illinois Basin supplies remain tight at present.

The domestic utility markets now seem to hold the cards. As for continued natgas price spikes, a southeastern utility coal buyer said: "We've had a cold spurt, but if it warms up, who knows?"

He further noted: "We are working on a few spot ton (purchases) that would get delivered here over the last five or six weeks of the year. We're not there yet."

He also anticipates concluding by Christmas term business for 2019-2023, most likely for ILB coal supplies. In the meantime, there's "not a lot of tons out there."

The spike in natgas prices – however much longer that lasts – probably won't influence purchase decisions, the utility buyer said, but whether coal will be dispatched at a higher level remains to be seen – again, depending on how the winter shapes up.

As for the Henry Hub, in the last few days' case, what goes up must come down, and then up again. The December contract dropped 92 cents/MMBtu on Thursday – not quite erasing the previous days' gains, but close – to retreat to $3.91. The prior settle was $4.84. As of Friday morning, December gas was back up to $4.14.

The January 2019 contract retreated nearly a dollar Thursday – by 98 cents – to mark at $3.92, from a prior settle of $4.90/MMBtu. It bounced back to $4.14 on Friday morning as well.

February, which reached $4.77 in the prior settle, also dropped 98 cents to hit $3.79/MMBtu on Thursday. It stood at $4 even Friday morning.

Likewise, March dropped 98 cents to $3.49 on Thursday, from the prior settle of $4.47/MMBtu, and recovered to $3.72 Friday morning.

The 2019 contracts that remained well below $3 on Wednesday – April through December – saw comparatively modest losses on Thursday at between 7 and 17 cents, marking mostly in the $2.60-$2.70 range, remaining in that range Friday morning.

Enjoying the ride?

Weekly coal carloads down 0.7%: AAR

With just seven weeks left in 2018, weekly coal carloads are set to close the year slightly down, or basically flat for statistical purposes. For the week ended Nov. 10, coal carloads stood at 84,532, down 0.7% from the same week in 2017, according to Association of American Railroads data.

Year-to-date carloads are down 0.7% as well versus 2017 in the latest week, totaling 3,806,988 and averaging 84,600 a week over the 45 weeks.

For October, according to AAR, coal carloads were up by 6,828, or 1.6%, compared with October 2017.

"U.S. rail traffic in October was mixed," stated AAR Senior Vice President John T. Gray. "On the negative side, changing market conditions for frac sand caused lower rail carloads of crushed stone, sand, and gravel, while uncertainties in export markets helped keep grain carloads down. On the plus side, coal carloads in October rose for the first time in five months and intermodal enjoyed its second-best month ever. All in all, we expect most rail traffic categories to continue to benefit from what we hope will be continued solid economic growth."

CSX Week 45 carloads rose 14.9% to 17,396 from 15,144 in the year-ago week. Fourth quarter-to-date carloads are up 5.8% at 102,915 compared with 97,295 QTD 2017. Year-to-date carloads are up 4.8% at 722,177 from 688,773 YTD 2017.

Norfolk Southern Week 45 carloads rose by 200, or 1.5%, to 17,938, from 17,738 in the year-ago week. QTD carloads dropped 1,685, or by 1.5%, to 110,684 from 112,369 QTD 2017. YTD carloads dropped by 13,842, or 1.6%, to 838,717 from 852,559 YTD 2017.

Union Pacific Week 45 carloads dropped 22% to 18,167 from 23,217 in 2017. QTD carloads are down by 8% to 123,425 from 133,528 in QTD 2017. YTD carloads are down 6% to 949,614 from 1,012,398 in YTD 2017.

BNSF Railway Week 45 carloads rose 4.4% to 38,399 from 36,788 in the comparable 2017 week. QTD carloads have risen 4.1% to 233,438 from 224,238 QTD 2017. YTD carloads are down 1.8% to 1,637,260 from 1,667,958 YTD 2017.

BNSF parent Berkshire Hathaway reported that the railroad's revenues from coal increased 5.9% in the third quarter to $1.1 billion and 1.6% in the first nine months of 2018 to $2.9 billion compared to 2017.

"These increases reflected higher average revenue per car partially offset by lower volumes of 4.6% in the third quarter and 2.6% year-to-date," according to the earnings statement. "The volume decreases in 2018 were due mainly to plant retirements combined with competition from natural gas and renewables, partially offset by market share gains and improved export volumes."

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Southern African Coal Conference

30 January - 1 February 2019 | Cape Town, South Africa
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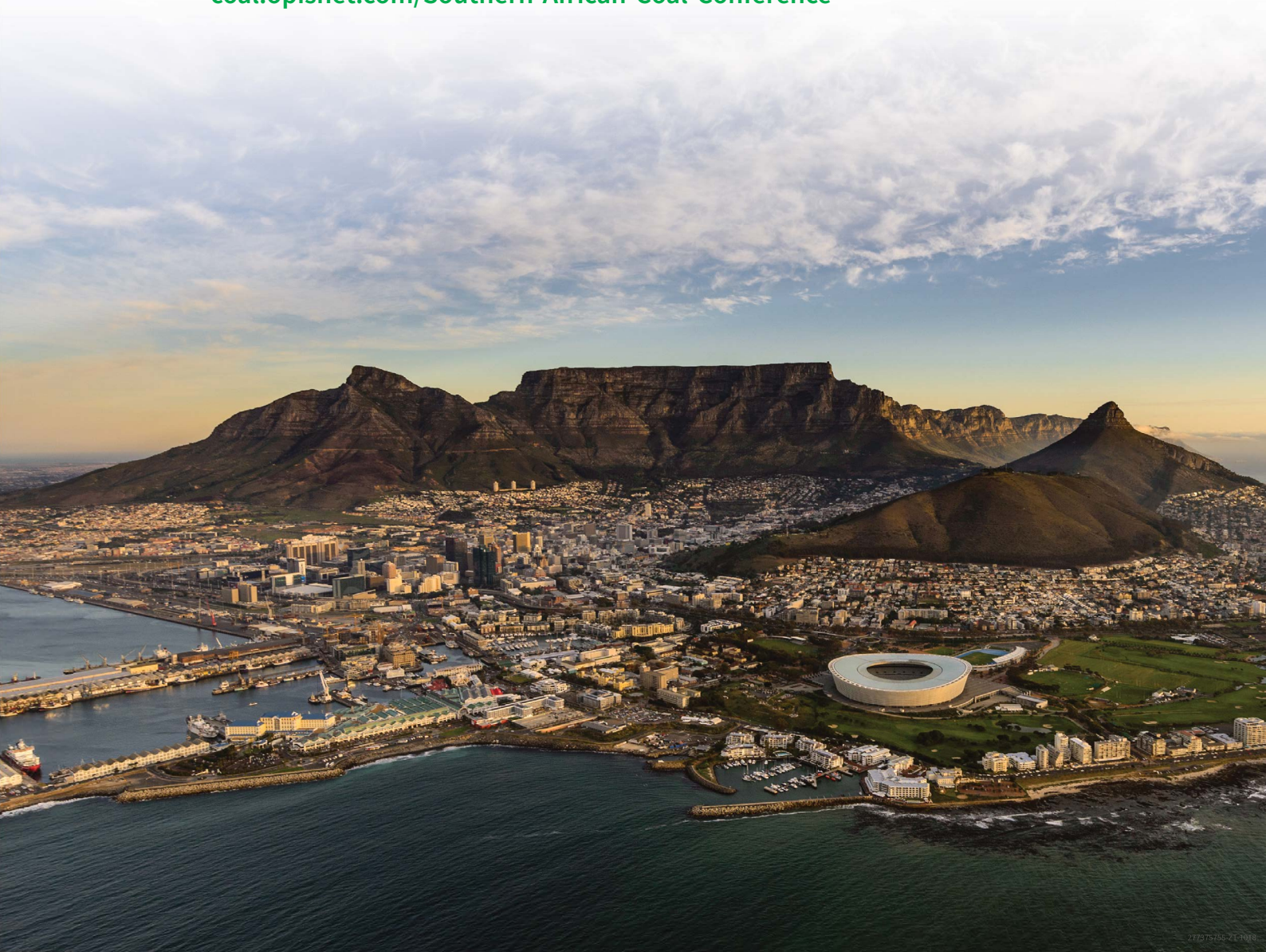
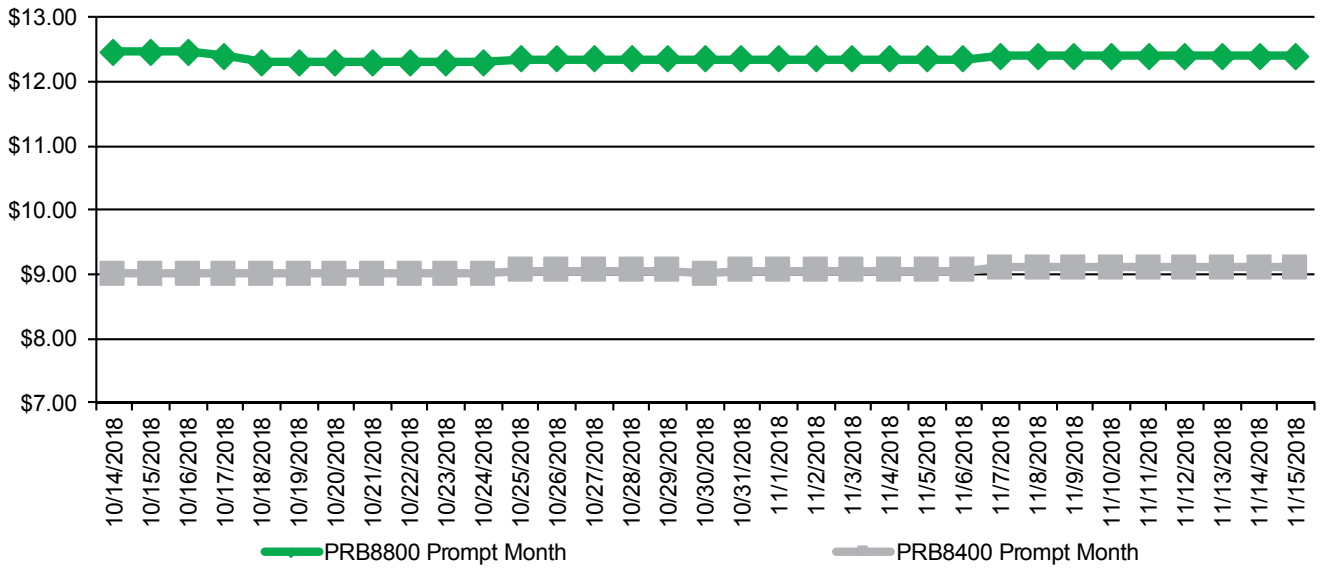


Prompt Month for PRB 8800 and PRB 8400 Coals



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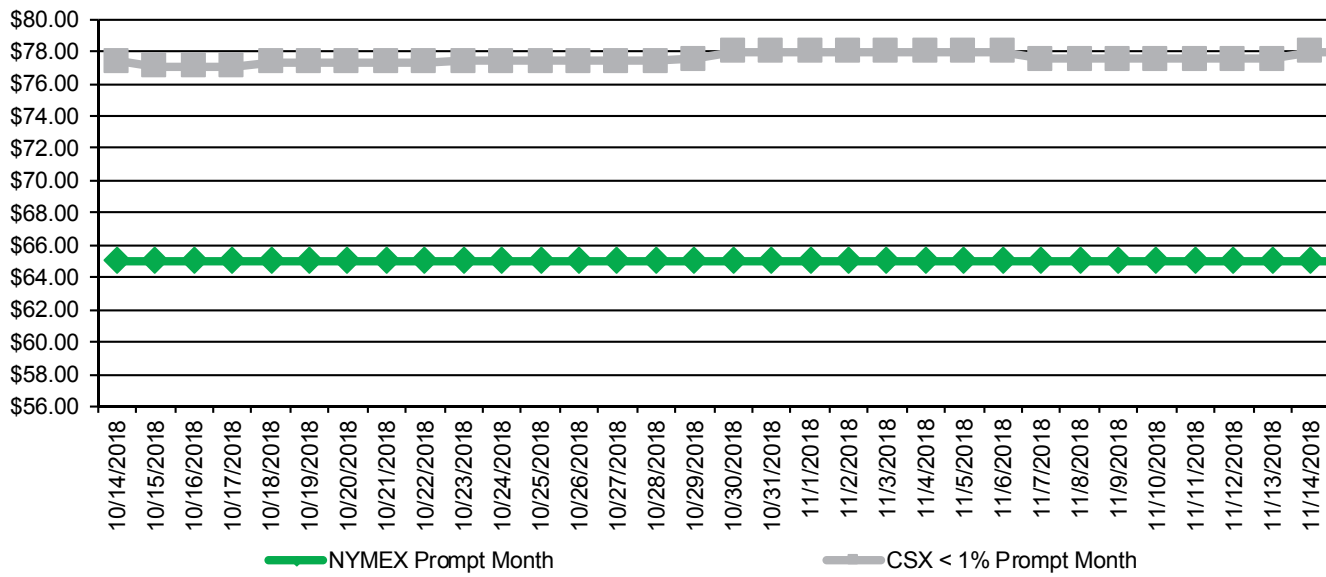
Prompt Month for CSX < 1% & NYMEX Coals



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Price markers

NAPP rail	12,900 Btu/lb., 4.0 lbs. SO2/MMBtu, **$57.28/ton**
ILB rail	11,500 Btu/lb., 3.0% Sulphur, **$44.75/ton**
NAPP barge	12,500 Btu/lb., 6.0 lbs SO2/MMBtu, **$46.79/ton**
ILB barge	11,500 Btu/lb., 3.0% Sulphur, **$45.59/ton**

Source: IHS Markit © 2018 IHS Markit

Global Coal News & Analysis

McCloskey Coal Report:
Comprehensive news and analysis of the global coal markets covering coal prices, seaborne trade and discussing supply and demand issues with immediate and longer term implications.

Fax:
Weekly digest of global prices and news in bite-sized form. All your weekly pricing data and market moving information in one place.

Newswire:
Real-time breaking coal market news and pricing wherever you are, delivered 24 hours a day.

North American Coal Market News & Analysis

Coal & Energy Price Report
Coal & Energy Price Report is the go-to daily publication for industry professionals. It features Commentary by Jim Thompson, critical news and insight about the U.S. domestic markets, and analysis of the U.S.' participation in international markets. The publication is included in IHS Energy's North American Coal suite.

U.S. Coal Review
Published weekly, U.S. Coal Review is focused on the U.S. utility market but has complete coverage of current coal developments including comprehensive price coverage and production trends. The publication also features weekly analysis and insight from IHS experts. The publication is included in IHS Energy's North American Coal suite.

Coal Price Data and Indexes

IHS coal price markers form a key component of the API indices, which serve as the settlement price in 90% of the world's coal derivative contracts. With its legacy of playing a key role in developing steam coal indexation, IHS McCloskey first published the NW European marker in 1991.

Available as an add on to our other products, the full set of steam, coking and petcoke prices – along with vital coal market data, news and analysis can be accessed through our online platform IHS Connect™.

4109-TS-0217

Chinese Coal Market News & Analysis

The service, which comprises analytical reports and daily intelligence updates, brings together IHS' tradition of excellence in covering seaborne markets with Xinhua Infolink's knowledge and insight of the Chinese market. Recent coverage has been at the heart of the policy, regulation, implementation and effect of China's goal of reducing domestic production capacity. This intelligence is augmented with data sets of key indicators.

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ENERGY

Coal Capability

Publication products and services

Global Steam Coal Service

The service is a one-stop shop for forward-looking analysis on the international steam coal market. At its core is a supply/demand and price forecast service. Outlooks are updated quarterly and backed up with in-depth commentary and a comprehensive data-base. The service also focuses on the inter-relationships between steam coal and other fuels, particularly natural gas as well as petcoke.

APAC and African Coal Market News and Analysis

Australian Coal Report
In-depth weekly coverage of Australian coal markets focusing on market moving events. Infrastructure is a key focus and includes port performance, vessel queues and freight. Australian coal statistics and published monthly in Excel covering exports and other data.

Indian Coal Report
Monthly update on developments in the Indian coal, power and steel markets, including coal production and prices. Key shipping routes to India (Cape, Mini Cape, Supermax) are assessed and priced. Data includes monthly coal imports.

Coalfax
Weekly summary of events impacting international coal markets focusing on Australia and wider Asia. Includes prices, tenders, stocks, shipping and the NEX Index, a key indicator of the spot price of thermal coal ex-Newcastle.

South African Coal Report
The interplay between domestic power demand and exports is a focus. Covers corporate news and wider African coal markets and includes an infrastructure focus on Richards Bay coal terminal, loading rates, rail, capacity, vessel queues, and freight.

Metallurgical Coal Market Insight, News and Analysis

The Metallurgical Coal Quarterly
forecasts metallurgical coal fundamentals and price out ten years. It is the critical decision making tool for metallurgical coal market players, and those in its related commodities.

Inside Coal
Daily news and analysis of the biggest events in the international metallurgical coal market. Complete coverage of prices, deep insight from met coal specialists, and supply/demand analysis.

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