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BUSINESS

Miners Cut Back in Largest U.S. Coal Region

Producers in Wyoming and Montana face weaker demand as fuel customers turn to natural gas

A train hauls coal mined in the Powder River Basin. The basin, which includes parts of Wyoming and Montana, is the largest coal-producing region in the U.S. PHOTO: MEAD GRUVER/ASSOCIATED PRESS

By Micah Maidenberg

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Miners in the nation's largest coal-producing region are increasingly leaving more of the fossil fuel in the ground as prices fall for alternatives including natural gas and demand erodes from power-generation customers.

Coal production from the Powder River Basin, an arid region spread over parts of Wyoming and Montana that produces about 40% of all U.S. coal, has declined by one-third between 2008 and 2017. It is expected to continue to drop in 2019. That has prompted many mining companies in the region to cut staff or benefits, reduce their exposure to the basin or leave it entirely.

"We've seen in the last few years, especially with the amount of gas coming online and fuel switching, that's biting into our customer base," said Travis Deti, executive director of the Wyoming Mining Association. "That remains a concern for the future."

The Powder River Basin is expected to produce 338 million tons of coal in 2018, but that total is projected to fall to 329 million tons in 2019, according to a December report from Seaport Global analyst Mark Levin. Coal analyst John Hanou, of Hanou Energy Consulting LLC, expects a weaker performance, and is predicting that Powder River Basin production will drop to 315 million tons in 2019.

The drop in demand is expected despite the Trump administration's efforts to boost the coal industry by easing regulations. President Trump had made assisting miners a centerpiece of his 2016 presidential campaign, and this past August declared the industry was back.

Companies in 2017 extracted about 334 million tons of coal in the basin, where excavators scrape coal from rich seams in walls of earth. That was the second-lowest level in about two decades, though up from 314 million tons in 2016, according to federal data.

Cloud Peak Energy Inc., the third-largest producer in the basin, said in November it is considering a sale as a result of declines in the coal market. Cost-saving moves for Cloud Peak, formed nearly a decade ago after being spun off from miner Rio Tinto PLC, have included ending a medical plan for retirees and seeking a buyer for its former main office in Gillette, Wyo. Shares in Cloud Peak, which are trading around 40 cents each, have plunged more than 90% in 2018.

In 2017, Contura Energy Inc. exited the region, selling two mines to Blackjewel LLC, a closely held venture led by a Virginia-based mining executive.

Peabody Energy Corp. , the region's largest miner, has sought to relinquish Powder River Basin acreage, a move that moderates its exposure to the market for thermal coal, used in power plants. It recently bought a mine in Alabama that offers metallurgical coal, a type used in steelmaking.

The region remains a core area for Peabody, as it offers coal that is among the most competitive with natural gas, a spokesman for the company said. But the miner has focused the vast majority of its investments on seaborne metallurgical-coal resources, he said. The spokesman described the relinquishment as trivial.

The basin's weakened status reflects the success of hydraulic fracturing, or fracking, which uses a mixture of sand, water and chemicals to fracture underground rock formations and release the oil and gas trapped inside. Fracking has opened up new supplies of cleaner-burning natural gas and helped push prices lower. Utility operators, which are among the industry's largest customers, are increasingly opting to fire up plants with lower carbon-emitting sources of energy than coal.

Between 2007 and 2017, the number of coal-fired generators in the U.S. fell 36% to 941, according to the Energy Information Administration. The decline removed about 55 gigawatts of coal-generated power from the U.S. market, roughly enough electricity to power 46 million homes annually.

New natural-gas-fired power plants are expected to help offset the decline in coal-fired electric-generating capacity.

“I don't think any utility in North America is going to consider building coal as a new venture,” said Todd Williams, a partner at energy consulting firm ScottMadden.

Powder River Basin mines face another challenge: Although they are highly productive and cost less than rivals to operate, geography prevents the coal from being transported economically to port terminals on the Eastern Seaboard for export. Also, shipping the coal to the Gulf Coast isn't as efficient as sending it out from facilities in California, according to analysts and the National Coal Coalition. U.S. producers with thermal mines closer to eastern and southern ports, such as Arch Coal Inc., have been able to lift results by selling coal abroad.

There is also limited port capacity to send thermal coal abroad from the West Coast in the U.S. and Canada, and proposals for new export terminals in Longview, Wash., and Oakland, Calif., have faced political opposition and legal challenges.

In the short term, rising prices for natural gas could make coal from the Powder River Basin more competitive. Thermal-coal stockpiles at utilities have also fallen, generating a potential buying cycle, and analysts expect fewer coal-powered facilities to close in 2019 than in 2018.

“Nothing has hit us as hard as the last few years, just with the closing of the power plants,” said Stacey Moeller, a 59-year-old shovel operator for Peabody currently on short-term leave from the company.

She added that younger co-workers need to think about alternative plans. “It's a great job, but if you don't have a market for your production, you're not going to last.”

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