



SNL Energy COAL REPORT™

Volume 5 Issue 20 Monday, May 18, 2009

Peabody, White Energy agree to develop PRB coal-upgrade plant

by [Barry Cassell](#)

Peabody Energy Corp. and Australia's White Energy Co. Ltd. announced May 13 they have signed an agreement to pursue development of a coal upgrading plant that would be sited at a Peabody operation in the Powder River Basin.

Under the agreement, Peabody also has the first right to participate in new coal upgrading development projects that White Energy undertakes in North America and China. The deal also gives Peabody a right to acquire a nearly 15% equity interest in White Energy.

"The coal upgrading plant would utilize White Energy's patented coal briquetting technology, a mechanical process that upgrades lower Btu coals," the companies said in a joint statement. "The process increases the coal's overall energy content by approximately 35 percent. The resulting product is higher quality, more efficient and cleaner, with lower carbon and other emissions. The upgraded coal can be used interchangeably with high rank thermal coal for a number of applications, including power generation,

industrial processes and Btu Conversion, such as coal-to-gas and coal-to-liquids."

"We view this technology as a way to unlock further value in our reserves in the Powder River Basin and at other locations to create new marketing opportunities for U.S. or export customers," said Richard Navarre, Peabody's president and chief commercial officer. "Coal has been the fastest-growing fuel for each of the past five years and will continue to be the world's primary source of electricity. We are pleased to be partnering

Continued on p 49

In this Issue

[Click on headline to advance to story](#)

Alpha touts Foundation synergies, says it is still in 'acquisition mode'

Phoenix Coal files detailed report on Gryphon coal mine project

CONSOL Energy issues layoff notices at 2 coal mines

ArcelorMittal's Mid-Vol unit seeks 2 more coal mine permits

Report: ArcelorMittal idling Warren, Ohio, coke plant

AK Steel may idle Ashland works, will maintain reduced coke output

Departments

[Click on department for more info](#)

[Supply](#)

[Transportation](#)

[Generation](#)

[Regulation](#)

[Markets](#)

[Opportunities](#)

Alpha to merge with Foundation in \$2 billion deal, creating 3rd-largest US producer

by [Michael Niven](#)

In one of the largest mergers in the U.S. coal industry in years, Alpha Natural Resources Inc. and Foundation Coal Holdings Inc. announced May 12 they will join together in an all-stock transaction valued at about \$2 billion.

The combined company, which will retain Alpha's name and be based at Alpha's headquarters in Abingdon, Va., will be the third-largest coal producer in the United States, with 2008 pro forma revenues of \$4.2 billion. As of the May 12 announcement, the merged company would have equity market

capitalization of \$3.5 billion and enterprise value of \$4 billion, Alpha and Foundation said. The companies operate a combined 59 coal mines and 14 preparation plants, and control more than 2.3 billion tons of coal reserves. Together, Alpha and Foundation produced 94.2 million tons of coal in 2008.

"We're creating a true U.S. leader in the energy sector with balance, size and scale," Alpha Chairman and CEO Michael Quillen said in the announcement. "Combining our resources and experience puts us in an excellent position to compete in both

Continued on p 47

Alpha/Foundation merger to combine disparate types of mines, markets

by [Barry Cassell](#)

The planned merger of Alpha Natural Resources Inc. and Foundation Coal Holdings Inc. will create the nation's third-largest coal producer with surprisingly little overlap between the former Alpha and Foundation mining operations.

Alpha is unusual for a major coal company in that it is focused on small Appalachian strip and deep mines and produces a high proportion of metallurgical coal. Alpha operates 50 mines and 10 coal preparation plants in four states. The prep plants, in some

respects, are the focus for many of the Alpha operations, more so than the mines, since they can clean and blend coals from multiple small mines in the regions around the plants, with much of that coal coming from third-party mine operators.

Steam coal accounted for about 58% of Alpha's 2008 coal sales volume. Metallurgical coal, which is used primarily to make coke, accounted for about 42% of the company's 2008 coal sales volume. In 2008, Alpha sold 28.3 million tons of steam and met coal.

Peabody inks deal with White Energy *continued*

with White Energy to develop a coal product with expanded market reach."

Peabody and White Energy are proceeding with engineering design and permitting activities for the first plant that are expected to take up to 24 months to complete. The plant would be built in phases, with the first phase expected to produce more than 1 million tons of upgraded coal per year. White Energy deploys its technology through modules capable of producing 1 million tonnes per year apiece, which works out to about 1.1 million tons. Subsequent phases could increase plant capacity ultimately to more than 20 million tons annually. Peabody expects substantial global growth opportunities using this technology that will initially focus on applications in North America and China.

White Energy CEO John Atkinson said, "The United States is a significant consumer of coal, and public sentiment supports that we move to a market with viable clean coal options as soon as possible. Peabody, as the world's largest private-sector coal company, is rightfully taking a leadership position in this initiative. White Energy is delighted to be partnering with Peabody to build a significant clean coal business in the United States and also to work together to develop opportunities in the China market. Today's agreement with Peabody complements projects we have done in other key coal markets around the world and represents another important step for White Energy in positioning itself as one of the world's leading providers of clean coal solutions."

The parties did not identify the PRB mine where the new coal-upgrade facility will be located. The most likely candidates would be Rawhide or Caballo in Wyoming, since they produce a low-Btu product that is more readily valuable to upgrade than high-Btu coals like the 8,800-Btu coal out of Peabody's North Antelope Rochelle mine in the Wyoming PRB. White Energy already has a deal with a unit of Kiewit Corp. to potentially build an upgrade plant at the low-Btu Buckskin mine in the Wyoming PRB.

Peabody's Feb. 27 Form 10-K filing said Caballo, located 20 miles south of Gillette, Wyo., sold during 2008 a total of 31.2 million tons of coal. "The Caballo Mine produces compliance coal with a sulfur content averaging 0.34% and a heat value averaging 8,100 Btu per pound," Peabody said in the filing. Rawhide, located 10 miles north of Gillette, sold 18.4 million tons of coal in 2008. "The Rawhide Mine produces compliance coal with a sulfur content averaging 0.36% and a heat value averaging 8,300 Btu per pound," Peabody said.

Peabody Energy is the world's largest private-sector coal company, with 2008 sales of 256 million tons and \$6.6 billion in revenues.

White Energy, a Sydney-based company, is the parent of White Energy Coal North America. White Energy's U.S. marketing efforts are led by Judy Tanselle, a veteran coal buyer for several U.S. power companies.

Said the White Energy Web site about the technology: "Developed over a number of years by the Commonwealth Scientific & Industrial Research Organisation in conjunction with White Energy, the White Coal Technology can process low cost, poor quality sub-bituminous coal into higher quality (from ~8,000 BTU/lb or 4,500 kcal/kg to ~11,000 BTU/lb or 6,200 kcal/kg as delivered to the customer) and higher value coal (from US\$12/tonne to over US\$50/tonne). An even greater calorific upgrade can be achieved when processing brown coal. The upgraded product burns more efficiently with lower carbon emissions and, depending upon the feedstock used, lower pollutant emissions. The reduced moisture content of the product results in cuts to load volumes creating transport efficiencies. The product is also physically and chemically stable, thereby reducing the risk of

spontaneous combustion and making it easier and safer to handle, transport and store."

[Feb 27, 09 Peabody Energy Corp. 10-K](#)

[May 13, 09 Peabody Energy Corp. Press Release](#)

[E-mail this story.](#)

Briefs

TECO Coal lays off 58 workers at Kentucky mines

Due to lower demand for coal, TECO Coal Corp. said it laid off 58 workers at two of its Premier Elkhorn Coal Co. subsidiary mines in Pike County, Ky., the *Lexington (Ky.) Herald-Leader* reported May 11.

The workers are being paid through June 19, the publication reported.

TECO Coal is a unit of TECO Energy Inc.

United Coal names Schroder president of Sapphire Coal

United Coal Co., which was acquired in April by Ukrainian steel producer Metinvest Group, said May 5 that John Schroder was named president of its Isom, Ky.-based Sapphire Coal Co. subsidiary.

Schroder most recently served as general manager of Carter Roag Coal Co. Inc., another subsidiary of United Coal based in Mill Creek, W.Va. He joined United Coal in 2006 as a production coordinator, later serving as mine manager/superintendent at the Mill Creek operation.

"John has an impressive record of leadership — with United Coal and within the industry," said Michael Zervos, president and CEO of United Coal, which is headquartered in Teays Valley, W.Va. "His first priority has always been his employees, and we are confident in his abilities to lead the Sapphire team to even greater achievements."

Schroder has served as technical assistant to the president of United Coal's West Virginia operations, which include Carter Roag and Pocahontas Coal Co. LLC of Beckley, W.Va. Prior to joining United Coal, he was employed in leadership roles at Drummond Co. Inc. His experience includes coordinator and foreman positions at Oak Grove Mining in Alabama, and at Pinnacle Mining and U.S. Steel Mining, both in Pineville, W.Va.

The United Coal Web site says about Sapphire Coal: "Sapphire Coal Company is headquartered in Isom, Ky., with operations located in Letcher and Knott counties in Kentucky. With more than 300 full-time employees, Sapphire Coal's primary focus is the production of high Btu coal from the traditional eastern Kentucky strata, including the Hazard, Amburgy, Elkhorn and Whitesburg seams in both underground and surface operations."

Metinvest Holding LLC, the managing company of Metinvest Group, was established in early 2006 and performs the strategic management of assets of System Capital Management Group in the coal- and ore-mining, coke, steel-making and welded pipes industries.

Accelergy hires Synthesis Energy executives

Clean coal technology developer Accelergy Corp. announced May 12 the hiring of two top executives from coal gasification developer Synthesis Energy Systems Inc.

Accelergy named Tim Vail its new president and CEO and David Eichinger its CFO. During their tenure at SES, Vail and Eichinger raised more than \$200 million for the business, built the first commercial gasification facility and successfully listed the company on the NASDAQ stock exchange, Accelergy said in its announcement. SES announced March 31 that Vail and Eichinger were leaving as the company shifted its focus in part toward gasification development in China.

"I'm very impressed by Accelergy's rapid progress and unique technology platform," said Vail, who also joins Accelergy's board of directors. "I am confident that Accelergy's proprietary next-generation direct coal liquefaction technology is the most efficient coal conversion technology available. Our goal is to build on the 30-plus years of experience and \$1 billion invested by a major global energy company in the development of the technology. Our next year will be spent harvesting the value by proving the commercial readiness of