



According to preliminary stats compiled from MSHA, PRB coal production for Q4 2018 was 84 million tons (336 million tons annualized). As a comparison, Q3 2018 production was 87 million tons or 346 million annualized. Full year 2018 PRB coal production ended up at 324 million tons. PRB production during 2017 was 334 million tons.

Second half (H2) PRB production is typically 11% higher than first half (H1) PRB production and with H2 2018 production up by 17 million tons (10%) 2018 was no exception. This increase from quarter to quarter follows the trend that has taken place since 2015. Hanou Energy believes this is mainly due to utilities rebuilding stocks for the winter, but also utilities having to meet minimal contractual requirements that they have with coal producers as well as with the UP and BNSF railroads. These contractual requirements could be one reason why PRB stockpiles continue to be stubbornly high – causing coal prices to remain relatively low (~\$12.25/ton for 8,800 Btu coal and ~\$9.25/ton for 8,400 Btu coal). At the end of October the EIA shows subbituminous coal stocks (of which the PRB accounts for 90%) were at 59 million tons. It is our belief that stocks need to be less than 45 million tons for the PRB to experience higher coal prices.

Peabody is still by far the largest producer in the PRB. During 2017 the company produced 123.5 million tons. Its production dropped by nearly 4 million tons to 119.2 million tons in 2018. Peabody's North Antelope Rochelle (NARM) mine is still the largest in the world coming in at 98.3 million tons, a 3.3 million ton drop from 2017.

Five years ago Arch Coal wanted to increase its Black Thunder coal production to 135 million tons per year. However, since exiting bankruptcy a couple years ago, Arch has ratcheted down Black Thunder's production to less than 70 million tons per year to preserve its reserve base before it has to jump across the Joint Line Railroad. For 2018 Arch announced the mine would only produce at a rate between 62 and 68 million tons. However, based on full year MSHA production, the mine produced 71.5 million tons.

During 2018, Arch's Coal Creek mine produced 8.0 million tons, which was more than a million tons lower than in 2017; however, in December 2018 Arch announced it would move 100 of its 148 employees from its low Btu Coal Creek mine to its higher Btu Black Thunder mine. By the end of the Q4, 2018 Coal Creek's employees dropped by 41 from the previous quarter while Black Thunder's employees remained the same at 1152. With the employee reduction we believe Coal Creek's production will drop to around 2.5 to 3.0 million tons in 2019. Black Thunder's production will likely stay around 70 million, plus or minus 10 million.

Cloud Peak continues to be the third largest PRB coal producer. Late last year the company announced it was considering "strategic alternatives," including a possible sale of the company. Cloud Peak's stock could be kicked off the New York Stock Exchange in the coming months after prolonged share prices below one dollar. In January 2019 the company filed a stockholder rights plan, more commonly known as a poison pill provision, with the Securities and Exchange Commission as a way of protecting management from a hostile takeover from a new investor. Apparently, as result of this announcement Cloud Peak's shares shot up 16.7% during mid-day trading on Wednesday, January 16 to \$0.35 from \$0.30.

Cloud Peak's Antelope mine production was impacted by heavy rain experienced during Q2 2018 which increased moisture causing significant spoil failures in both dragline pits in mid-August. This occurred as coal was removed from the base of the wet spoil piles and is still occurring as coal is removed in mid-October. As a result, Antelope's coal production suffered dropping by more than 5 million tons from 2017 to 2018.

During Q2, Cloud Peak stated that the company's total 2018 PRB coal production would be between 52 and 56 million tons. They then revised it down to 49 to 52 million tons. Final production ended at 49.5 million tons which is 8.1 million tons lower than in 2017. With an average selling price of around \$12.00/ton this equates to nearly \$100 million revenue shortfall in 2018 versus 2017. Moreover, the company will eventually need to refinance ~\$290 million of debt in 2021. Its high cost Cordero Rojo mine dropped production from 16.4 million in 2017 to 12.8 million in 2018. Stronger coal exports allowed its Spring Creek mine to expand production from 12.7 to 13.8 million tons.





Kiewit had a strong showing in 2017 as it more than doubled production out of its Buckskin mine (from 7.1 million tons in 2016 to 14.5 million tons in 2017). First half 2018 production was a dismal 5.5 million tons; however, production during 2018 rebounded ending up at 13.5 million tons. At this time we don't know if the higher H2 2018 production was due to new sales/higher demand or whether it was due to minimum contractual requirements that utilities have with Kiewit and the BNSF Railway.

Westmoreland's production was 12.2 million tons in 2018 – the same as in 2017. The company filed Chapter 11 on October 9, 2019. On January 16, 2019 the bankruptcy judge extended Westmoreland's exclusive period to file a Chapter 11 exit plan was extended through Aug. 5 for the WMLP Debtors, and June 29 for the WLB Debtors. According to IHS Markit:

“There is an effort ongoing to auction their assets in two groups:

- the "core" assets, with some creditors as the "stalking horse" bidder; and
- the "non-core" assets, to be sold individually, possibly to the stalking horse bidder or perhaps to other parties, depending on the mine in question.

The bid deadline for the assets was Jan. 15, with a Jan. 22 live auction to be held if there were any written bids lodged, with a Feb. 13 court hearing on the results.

With all or most assets to be sold, any reorganization plans filed under these new deadlines would mainly involve how to divvy up sale proceeds, how to deal with liabilities and how to handle shutdown of any operations not sold.”

Switching to the Bull Mountain coalfield in Montana, the Signal Peak Bull Mountain longwall mine production topped out at 5.6 million in 2016. With some new export sales, the mine ended up producing 5.9 million tons in 2017. With strong export demand continuing, full year 2018 coal production ended up at 7.6 million tons, which is close to its capacity of 8.0 million tons per year production.

Higher export sales allowed the Lighthouse Resources' Decker mine to improve production from 2017 to 2018 by 0.6 million tons to 4.8 million. The company is still trying to develop its 44 million ton per year, \$680 million Millennium Bulk Terminals-Longview coal export facility in Longview, Washington. The long-delayed facility received a boost in October 2018 when the Army Corps of Engineers revived an environmental review of the controversial coal-export project a year after state environmental regulators denied the project a key permit.

Jeff Hoops' Blackjewel LLC coal company took over Contura's Belle Ayr and Eagle Butte mines in December 2017. The two mines produced 33.1 million tons during 2017 and for full year 2018 the two mines produced 35.5 million tons, a 2.4 million ton increase. This is of interest because most of the mines that Belle Ayr and Eagle Butte compete against cut production back in 2018.

Blackjewel is considered to be a so called “8,400 Btu” coal producer. Excluding the “captive” mines (Wyodak and Dry Fork), the other Wyoming PRB mines that fit this category are Peabody's Rawhide and Caballo, Cloud Peak's Cordero Rojo, Arch's Coal Creek and Kiewit's Buckskin mines. Combined, these five mines cut back production by a total of 6.4 million tons from 2017 to 2018. This suggests to this author that prior to its sale to Blackjewel, Contura bought market share to assure a strong production year at Belle Ayr and Eagle Butte. I could be wrong because I have not perused the EIA Form 923 coal delivery receipt data at this point in time. It is entirely possible that the plants normally served by Belle Ayr and Eagle Butte dispatched at a higher rate in 2018 due to higher natural gas prices and the possibility that these two mine's customers did not close any plants. If Contura did buy market share, it must have been done by lowering the coal price to beat out the two mine's competition.





With Arch's announcement of cutting back Coal Creek production and with Westmoreland's bankruptcy filing and with Cloud Peak considering "strategic alternatives, coupled with lower demand due to plant closures the PRB is experiencing major "winds of change." The bottom line is that the PRB is not in a healthy state; one that may not be reversible.

Hanou Energy and Burnham Coal completed their annual Powder River Basin Coal Supply, Demand and Price Trends 2018–2037 report in August 2018. The study is regarded as one of the best analyses of the basin available. Hanou Energy Consulting, LLC is owned and operated by John Hanou. Mr. Hanou can be reached by phone at 410-279-3818 or via email jthanou@hanouenergy.com. His website is <http://hanouenergy.com>. Burnham Coal, LLC is owned and operated by Bob Burnham. Mr. Burnham can be reached at 303-517-7826 or by email bob@burnhamcoal.com. His website is <http://burnhamcoal.com>.

