



PRB: Back to the Past. Is there a Future?

By John T. Hanou, Hanou Energy Consulting, LLC

Back in 1994 and 1995 Powder River Basin (PRB) coal mines respectively produced 254 and 284 million tons in those years. According preliminary stats compiled from the Mine Safety Health Administration (MSHA), Q1 2016 PRB production was 69 million tons. On an annualized basis this equates to 276 million tons produced.

Not only that, from Q1 2015 to Q1 2016 PRB production dropped by 37 million or 147 mmt lower on an annualized basis. The decrease is mainly attributed to ultra-low gas prices, the mild winter, lower electricity demand and federally subsidized wind power.

PRB peak production was in 2008 when the basin produced an astounding 496 million tons, which is 220 million tons higher than what was produced in Q1 2016 (annualized).

So is this the new future of PRB coal?

In previous quarterly updates Hanou Energy stated that as subbituminous coal stocks continued to increase, it was apparent the utilities were continuing to honor their coal supply contracts with producers and Hanou Energy envisioned that as supplier/consumer contracts expired, they would not be renewed or would be renewed at lower shipment levels. Indeed this is exactly what has happened.

As predicted by Hanou Energy in the last quarterly update subbituminous coal stocks for electricity generation exceeded 100 million tons at the end of December 2015. As of the end of January 2016 stocks were at 107 million tons.

These drastic production cuts are exactly what are needed for the PRB to see any price recovery. It is Hanou Energy's strong belief that subbituminous stocks need to drop to below 50 million tons before we see strong price recovery. While Hanou Energy still contends that price recovery will happen in 2017 at the earliest and possibly 2018, with these drastic production cuts who knows? Watch the monthly stockpile levels as reported by the EIA closely. They should start to drop precipitously over the next several months. Maybe the magic 50 million ton number might happen sooner than later.

Production cuts have also resulted in layoffs. Peabody Energy recently announced it was laying off about 235 employees at its North Antelope Rochelle mine, and Arch Coal said it was reducing 230 positions at its Black Thunder mine. Including these cutbacks, PRB employment levels at the mines have dropped by nearly 800 miners since the end of Q1 2015. Additional cutbacks have also occurred in the corporate offices in Gillette as Peabody, Arch and Alpha have more or less eliminated these offices.

What about the producers?

With Alpha, Arch and Peabody in Chapter 11, 70% of PRB coal production is now under protection of U.S. bankruptcy laws.


All PRB coal producers experienced lower production numbers from Q1 2015 to Q1 2016.

The biggest production cutbacks occurred at Peabody's and Arch's mines. Peabody's Q1 2016 coal production dropped by 12.3 million tons from Q1 2015. Arch's production was 11.5 million tons lower. Combined, that is 95 million ton cut on an annualized basis!

For the period, Cloud Peak's production dropped by 6.8 million and Alpha saw a 2.5 million ton cut. Percentage-wise Kiewit experienced the largest cut – 43% or 2.4 million tons at its Buckskin mine.

Switching over to the Bull Mountain coalfield in Montana, the Signal Peak Bull Mountain mine only produced experienced a 0.4 million ton cut.

The following table shows PRB and Bull Mountain coalfield production by company and by mine as reported by MSHA for the period 2008 through Q1 2016.

<h2 style="text-align: center;">Powder River/Bull Mountain Production</h2> <h3 style="text-align: center;">2008 - 2015, Q1 2016</h3> <p style="text-align: center;">By Company/Mine (Millions of short tons)</p>												
 Company - Mine Mine State Joint Line Access ?			Production Year/Quarter								Dif- ference from Q1 2015	
			2008	2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	2015	Q1 2016		
Alpha												
Belle Ayr	WY	JL	28.7	15.8	5.1	3.7	5.0	3.8	17.5	3.6	-1.5	
Eagle Butte	WY	N	<u>20.4</u>	<u>20.7</u>	<u>4.9</u>	<u>4.9</u>	<u>5.0</u>	<u>4.9</u>	<u>19.6</u>	<u>3.9</u>	<u>-1.0</u>	
Alpha Total			49.2	36.5	10.0	8.5	9.9	8.6	37.1	7.5	-2.5	
Arch												
Black Thunder	WY	JL	88.6	101.0	26.3	23.5	27.2	22.5	99.5	15.2	-11.1	
Coal Creek	WY	JL	<u>11.5</u>	<u>9.4</u>	<u>1.8</u>	<u>1.8</u>	<u>2.1</u>	<u>2.2</u>	<u>7.8</u>	<u>1.3</u>	<u>-0.5</u>	
Arch Total			100.0	110.4	28.0	25.3	29.3	24.7	107.3	16.5	-11.5	
Black Hills												
Wyodak	WY	N	<u>6.0</u>	<u>4.3</u>	<u>1.0</u>	<u>1.1</u>	<u>1.0</u>	<u>1.0</u>	<u>4.1</u>	<u>0.9</u>	<u>-0.1</u>	
Black Hills Total			6.0	4.3	1.0	1.1	1.0	1.0	4.1	0.9	-0.1	
Cloud Peak												
Antelope	WY	JL	35.8	33.6	9.0	7.6	9.1	9.4	35.2	6.9	-2.2	
Cordero Rojo	WY	JL	40.0	34.8	5.9	4.5	6.9	5.5	22.9	3.7	-2.2	
Decker	MT	N	3.4	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Jacobs Ranch	WY	JL	42.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Spring Creek	MT	N	<u>17.9</u>	<u>17.3</u>	<u>4.6</u>	<u>3.8</u>	<u>4.8</u>	<u>3.8</u>	<u>17.0</u>	<u>2.3</u>	<u>-2.4</u>	
Cloud Peak Total			139.3	86.8	19.6	16.0	20.8	18.7	75.0	12.8	-6.8	
FEnergy/Boich/Gunvor												
Signal Peak/Bull Mountain	MT	N	<u>0.2</u>	<u>7.9</u>	<u>1.7</u>	<u>1.4</u>	<u>1.7</u>	<u>1.6</u>	<u>6.4</u>	<u>1.4</u>	<u>-0.4</u>	
FEnergy/Boich/Gunvor Total			0.2	7.9	1.7	1.4	1.7	1.6	6.4	1.4	-0.4	
Kiewit												
Buckskin	WY	N	<u>26.1</u>	<u>15.3</u>	<u>4.3</u>	<u>3.2</u>	<u>3.5</u>	<u>3.2</u>	<u>14.2</u>	<u>1.9</u>	<u>-2.4</u>	
Kiewit Total			26.1	15.3	4.3	3.2	3.5	3.2	14.2	1.9	-2.4	
Lighthouse Resources												
Decker	MT	N	<u>3.4</u>	<u>2.4</u>	<u>0.6</u>	<u>0.8</u>	<u>1.0</u>	<u>0.6</u>	<u>3.0</u>	<u>0.4</u>	<u>-0.2</u>	
Lighthouse Resources Total			3.4	2.4	0.6	0.8	1.0	0.6	3.0	0.4	-0.2	
Peabody												
Caballo	WY	JL	31.2	8.0	2.7	2.8	3.1	2.8	11.4	2.5	-0.2	
North Antelope-Rochelle	WY	JL	97.6	118.0	30.2	23.8	27.1	28.2	109.3	20.0	-10.2	
Rawhide	WY	N	<u>18.4</u>	<u>15.5</u>	<u>3.8</u>	<u>3.4</u>	<u>4.2</u>	<u>3.8</u>	<u>15.2</u>	<u>1.9</u>	<u>-1.9</u>	
Peabody Total			147.2	141.4	36.7	30.1	34.4	34.7	135.9	24.4	-12.3	
Western Fuels												
Dry Fork	WY	N	<u>5.3</u>	<u>5.4</u>	<u>1.7</u>	<u>1.7</u>	<u>1.6</u>	<u>1.4</u>	<u>6.4</u>	<u>1.5</u>	<u>-0.2</u>	
Western Fuels Total			5.3	5.4	1.7	1.7	1.6	1.4	6.4	1.5	-0.2	
Westmoreland												
Absaloka	MT	N	6.4	6.4	1.6	1.7	1.3	0.9	5.5	1.1	-0.6	
Rosebud	MT	N	<u>13.1</u>	<u>9.0</u>	<u>2.2</u>	<u>2.1</u>	<u>2.7</u>	<u>2.7</u>	<u>9.7</u>	<u>2.2</u>	<u>0.0</u>	
Westmoreland Total			19.4	15.4	3.9	3.8	4.0	3.5	15.2	3.3	-0.6	
Joint Line PRB Total			375	321	81	68	81	74	304	53	-28	
Montana PRB Total			44	36	9	8	10	8	35	6	-3	
Wyoming PRB Total			452	382	97	82	96	89	363	63	-34	
PRB Grand Total			496	418	106	90	106	96	398	69	-37	
PRB Annualized Grand Total					423	361	423	386		276	-147	
Bull Mountain Total			0.2	7.9	1.7	1.4	1.7	1.6	6.4	1.4	-0.4	
PRB / Bull Mountain Grand Total			496	426	108	92	107	98	405	70	-37	

Source - MSHA, Hanou Energy Consulting, LLC

Hanou Energy and Burnham Coal recently updated their strategic study on the PRB. Available now, their *Powder River Basin Coal Supply, Demand and Price Trends 2015–2034* 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>.

