

Surface Transportation Board RETAC Meeting Coal Producer Update

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SEPTEMBER 20, 2012

Coal Producer Members

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- **John Hull – VP Transportation, Peabody Energy**
- **Betsy Monseu – VP Transportation, Alpha Coal Sales Co., LLC**
- **Kent Smith – Sr. VP Commercial Operations, Arch Coal Sales**

Issues Facing Industry

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- **Decreased Domestic Demand for Thermal Coal**
- **Uncertain Regulatory Environment**
- **Decline in International Coal Prices**

Decreased Demand for Domestic Thermal Coal

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- **Depressed Natural Gas Prices**
- **Coal Production Down**
 - First half of 2012 down by 29 million from 2011 (Source: MSHA)
- **Employment Down**
 - Thousands of layoffs to date
 - Central Appalachian region impacted particularly hard
- **Capital Expenditures Down**
- **Ability of Industry to respond to sudden demand increase will be challenging**

Uncertain Regulatory Environment

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- **Utility regulations (CSAPR, MACT, etc.)**
- **Many Mining Industry Specific Issues**
 - EPA veto of previously issued Spruce Permit *
 - EPA Water Conductivity Guidance *
 - Major backlog of permit approvals (including renewals)
 - Increased Federal Office of Surface Mining (OSM) oversight of state regulatory programs

* Federal courts have ruled in favor of Industry to date

International Market

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- US coal export volumes continue to grow
 - 78 million through July; up 27% from 2011
- International prices have fallen sharply
- Volume limited to port capacity; particularly off West Coast

