

# Challenges of Carrying Coal

## RAIL SHIPMENTS AND IMPORTS SHOW GAINS

By Lee Buchsbaum



MANY MINE MANAGERS will tell you they're never happier than when they see a loaded coal train leaving their mine. But the railroads have been unable to consistently deliver empty trains to the mine, or off take coal in accordance with any predictable schedule.

Peabody Energy, the world's largest public coal company and America's production leader, recently reported that 2006 production would be at the low ends of their targeted range of 230–240 million tons because of continued "transportation shortfalls," and that "while Peabody's Powder River Basin (PRB) operations will set shipment records in 2006, the mines continue to receive fewer trains than needed to meet sales commitments." Last year, the two rail carriers in the PRB shipped some 325 million tons of coal. New government statistics suggest that perhaps the rail carriers' infrastructure improvements are having some success. After years of investments in new track, locomotives and equipment as well as increased hiring, in June of this year the UP reported record shipments off several of their western coal branches. Currently, both the UP and BNSF, its partner in the PRB Joint Line, are reporting that they're moving more than 80 loaded trains a day off the line, well over 10 percent higher than last year at this time.

As PRB coal has become increasingly sought after, the mines also have taken steps to improve their loading capabilities. They've increased their rail loading capacity, built multi-track storage yards off the main line and constructed bigger loadouts capable of loading larger trains, often more than one at a time.

"But the coal companies can only put in additional loadout and stockpile capacity at the mine," said Bob Burnham of leading mine analyst Hill and Associates. "And that's becoming difficult for them, especially in Wyoming where you have to have covered storage as part of your dust control. Storage capacity is fairly small compared to the tons of coal they are moving on a given day."

According to the U.S. Energy Information Administration, the carriers are moving more and utility coal stockpiles are growing at rates not seen in three years. In May, utilities had rebuilt their stocks to 133 million tons, the highest they've been since the end of 2002. As of June, this number was up to 135.1 million tons, almost 20 million more than



Source: Lee Buchsbaum

in June 2005. In fact, these numbers have been growing larger all year as coal companies have also been producing 3.8 percent more coal. Meanwhile, utilities have consumed 1.2 percent less of it. In fact, because of the amount of coal that is now moving and being stockpiled at the utilities, coal prices are starting to decline, and many analysts are starting to wonder if we're entering a period of excess coal production, especially in the PRB.

However, taking advantage of a still tight shipping market, several coal suppliers, especially companies such as Alabama-based Drummond Coal, are increasing their imports into the Gulf region from mines they own in Columbia and elsewhere, hoping to capture a greater share of the that area's utility contracts. According to a recent study by Hill and Associates, U.S. imports of steam coal may grow to almost 45 million metric tons by 2010, up from 31.6 million metric tons at the end of this year. To facilitate these increased imports, several large coal trans-loaders, such as Kinder Morgan, have begun to improve their coal export facilities in the Gulf into dual import-export terminals. But not all coal is the same, and many utilities cannot simply switch from PRB coal to foreign coal with different burning properties. As it is, much of the Columbian coal product has served as a replacement for dwindling supplies of coal from Central Appalachia, another region that has been plagued with rail service challenges, albeit not on the scale of the PRB.

Vince Stroud, vice president of regulated fuels for Duke Energy, said his company would probably not buy Northern Appalachia coal for its plants in the Carolinas because of high rail rates. "Our most economical coal will probably be international," he said.

⚡ A coal train about to be loaded in Wyoming's Power River Basin.

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#### LNG PROPOSAL

A proposed \$1 billion liquefied natural gas terminal off of the Louisiana coast would not have a major environmental impact, the government said.

McMoRan Exploration Co., developers of the facility, said it will be able to handle 350 billion cubic feet of natural gas a year, according to an Associated Press report. Currently, there is one LNG facility in the Gulf of Mexico and others have been proposed for offshore Louisiana.

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