

Date: Tue, 23 Sep 1997 11:33:44 -0400  
From: Jon Coifman <jcoifman@ems.org>  
Sender: owner-uscan-talk@igc.org  
Subject: AP/Dow: Coal, Energy Markets & Deregulation  
To: (Recipient list suppressed)  
X-MIME-Autoconverted: from quoted-printable to 8bit by igcb.igc.org id IAA09333  
X-Sender: jcoifman@[199.245.22.2]

Dow Jones Newswires -- September 22, 1997

'Money Changer' Power Marketers Targeting Coal Industry

By MARK GOLDEN AP-Dow Jones News Service

NEW YORK -- The intermediaries that changed the oil, natural gas, and power industries now are descending on the oldest part of the energy chain - coal.

The U.S. coal industry's premiere annual conference used to be the preserve of coal salesmen and utility company coal buyers. But this year's meeting of Coal Marketing Days, held last week, was thronged with companies that neither mine nor burn coal. Companies such as AIG, Electric Clearinghouse, Enron Capital & Trade, Vitol Gas & Electric, and Vastar Power Marketing were there in force.

'That's the first time I've seen that many power marketers at that conference,' said Cyprus Amax Coal Co.'s manager of market development, Dennis Conn.

At times, the new arrivals may have felt less than welcome.

The former fuels manager for utility Detroit Edison, Norm Barthlow, who is now retired, was less than charitable in his characterization of power marketers, saying they 'prey on the uncertainties and volatilities' of industry changes.

'In a tender moment,' he added, 'I call them money changers and second-hand dealers.'

'Sitting on the sidelines, yet attached to the coal and utility industry are the 'bookies with MBA's' and the money changers of the temple, betting on coal futures and marketing power, plying their tools and wares of swaps, options unwinding collars, caps, floors, et cetera.'

One coal company executive at the conference said all the intermediaries do is add cost.

But the power marketers gave as good as they got. More than once, they told the gathered utility and coal executives that if they didn't start doing business the new way, they could soon find themselves looking for jobs.

'Guys that do well in the regulated environment are not necessarily the guys that do well in the unregulated environment,' said George McClellan,

who heads Enron Capital & Trade's coal operations.

McClellan noted that, of the 77 executives with Enron in 1984, only nine had survived deregulation of the natural gas industry.

But in a later interview, McClellan said his company is working actively with coal companies and utilities.

'We've been well received by the more sophisticated companies,' he said Friday. 'When we can bundle coal and power, that gets interest. When we can add long-dated, forward-term pricing, that gets the most interest.'

McClellan explained that his group typically buys coal at a fixed price for five years or more and then signs a contract with a utility to swap that coal for power. The coal companies are happy to get the fixed income.

'I think the resentment stems from a lack of understanding,' McClellan said. 'We're not brokers and we're not adding cost.'

'Once we put a price in front of them, it's business,' he said, 'not a philosophical debate.'

While many coal company executives and utility fuel buyers resist the changes power marketers represent, some embrace the future.

Irl Engelhardt, the president and chief executive of the U.S.' largest coal company, Peabody Group, said his company will soon offer innovative deals, including coal contracts that are indexed to electricity prices, price collars, coal tolling, and puts and calls on coal futures.

Peabody Group is owned by U.K.-based Energy Group, which also holds Citizens Power, a U.S. power marketing company.

Even Engelhardt, though, admits that some Peabody executives 'are reluctant to trade coal margins for power margins.'

As a result, Peabody executives have been sent to Citizens Power offices for training in power markets, and Citizens Power traders have spent time in Peabody mines.

Peabody is also looking to acquire electricity generation assets.

Zeigler Coal Holding Co., the U.S.' fifth largest coal concern, is pursuing a course similar to Peabody's, though more homegrown. Zeigler is building its own trading subsidiary, EnerZ, which currently trades gas and power, plans to make coal deals in the future. Zeigler is also trying to obtain generation capacity as part of a consortium bidding on Cajun Electric Power Cooperative.

Other coal companies known to hold their own power marketing licenses include Cyprus Amax Coal, Arch Coal, and Kennecott Energy, but none of those companies are now aggressive players in the power trading business. Cyprus Amax Coal uses its license for coal tolling deals, market developer

Conn said Friday. In tolling, coal and a generation fee are sold to a utility in return for power. Still, he sees deregulation as a great opportunity for coal companies.

'The last 10 years have not been great for the coal industry,' Conn said. 'Once deregulation takes effect, the utilities and coal companies will develop the sophistication they need to compete, and we won't need intermediaries as much. They'll need to have physical assets.'  
McClellan and Bill Schaffer, head of coal trading for Vitol, disagree.

'It didn't happen that way in oil, natural gas, or power,' McClellan said in an interview. 'Why would coal be any different?'

'We have no desire to be coal producers or coal brokers,' Schaffer said at the conference. 'We see ourselves as trading partners.'

The best partners for the intermediaries are those companies that want to maintain their traditional focus on mining coal and don't want to go to the expense of running a trading operation, McClellan maintained.

'We got the license a couple of years ago, but we're not using it yet,' said a Kennecott executive, who asked not to be named. 'We got it because that's what other companies were doing at the time, but we want to focus on mining coal.'

In fact, Kennecott is known for its high productivity and low costs. The executive said the company is turning a profit in the very competitive Powder River Basin market, where most other companies are now taking losses.

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Jon Coifman  
Program Director  
Environmental Media Services  
1320 18th Street NW, Suite 500  
Washington, DC 20036  
Tel (202) 463-6670 / Fax (202) 463-6671  
E-Mail [jcoifman@ems.org](mailto:jcoifman@ems.org)