

Discovering (or Retaining) Value in a Weak Market

Coaltrans USA May 13-14, 2002

presented by

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Presentation Overview



- Basic Fundamentals
- Market Price Influences
- Accepting Volatility
- Strategies in a Weak Market *(or any market)*
- Forward Thinking
- Summary

...but first, a comment about ICAP United, Inc.



ICAP United, Inc. Markets:

- Fuels
 - Gasoline, Heating Oil, Weather
- Crude
 - Natural Gas, Crude
- Energy
 - Nymex Floor, Advisory Service
- Power
 - Coal, Emissions

Basic Fundamentals, Market Indicators
...but tell me something I don't already know



- Weather (*don't just use the Almanac*)
- Economy GDP
- Electricity Prices – Current and Futures
- Demand – Coal Stockpiles Inventory
- Supply - Production Adjustments
- Labor
- Environmental Issues

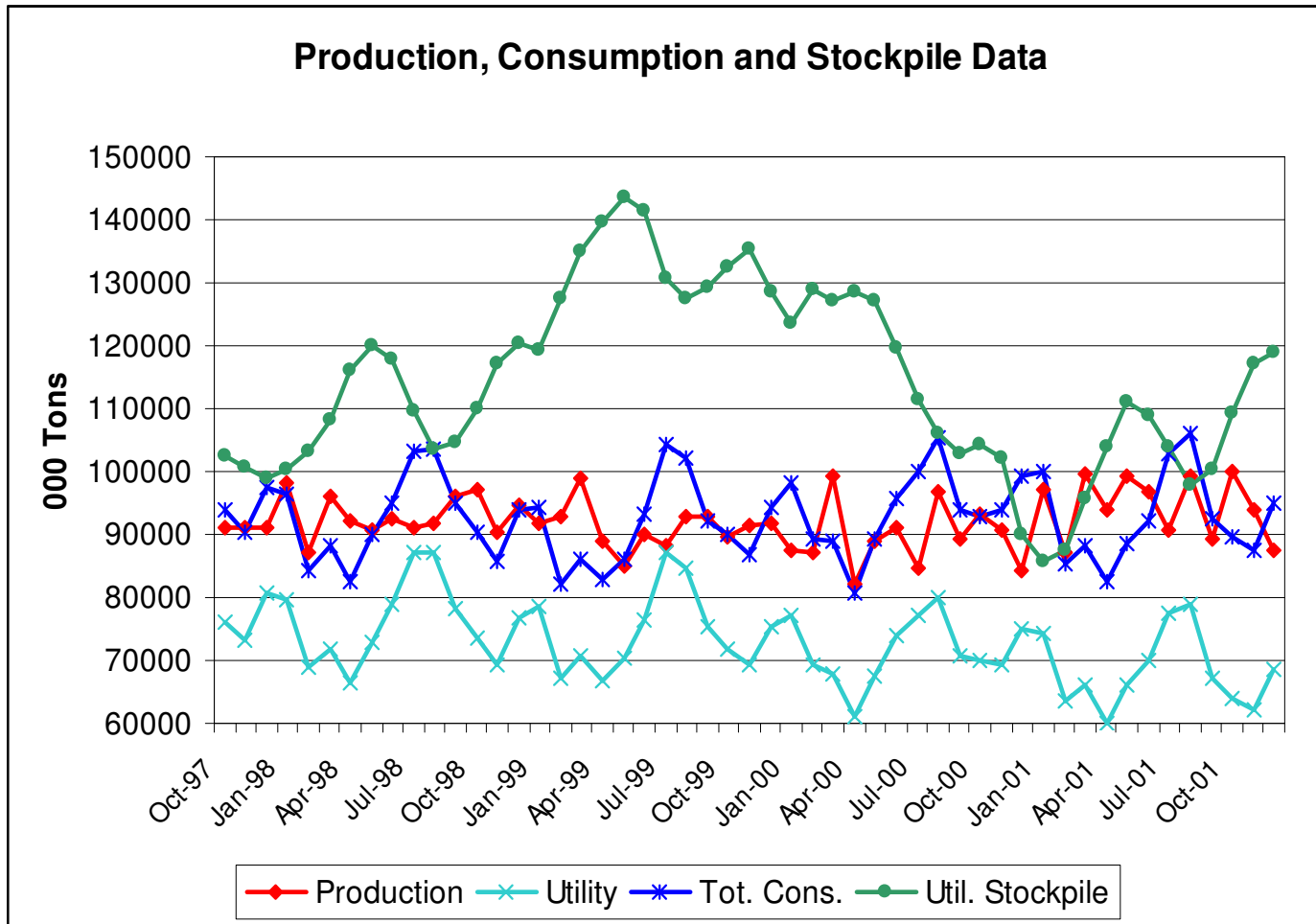
Market Price Influences...the rest of the story



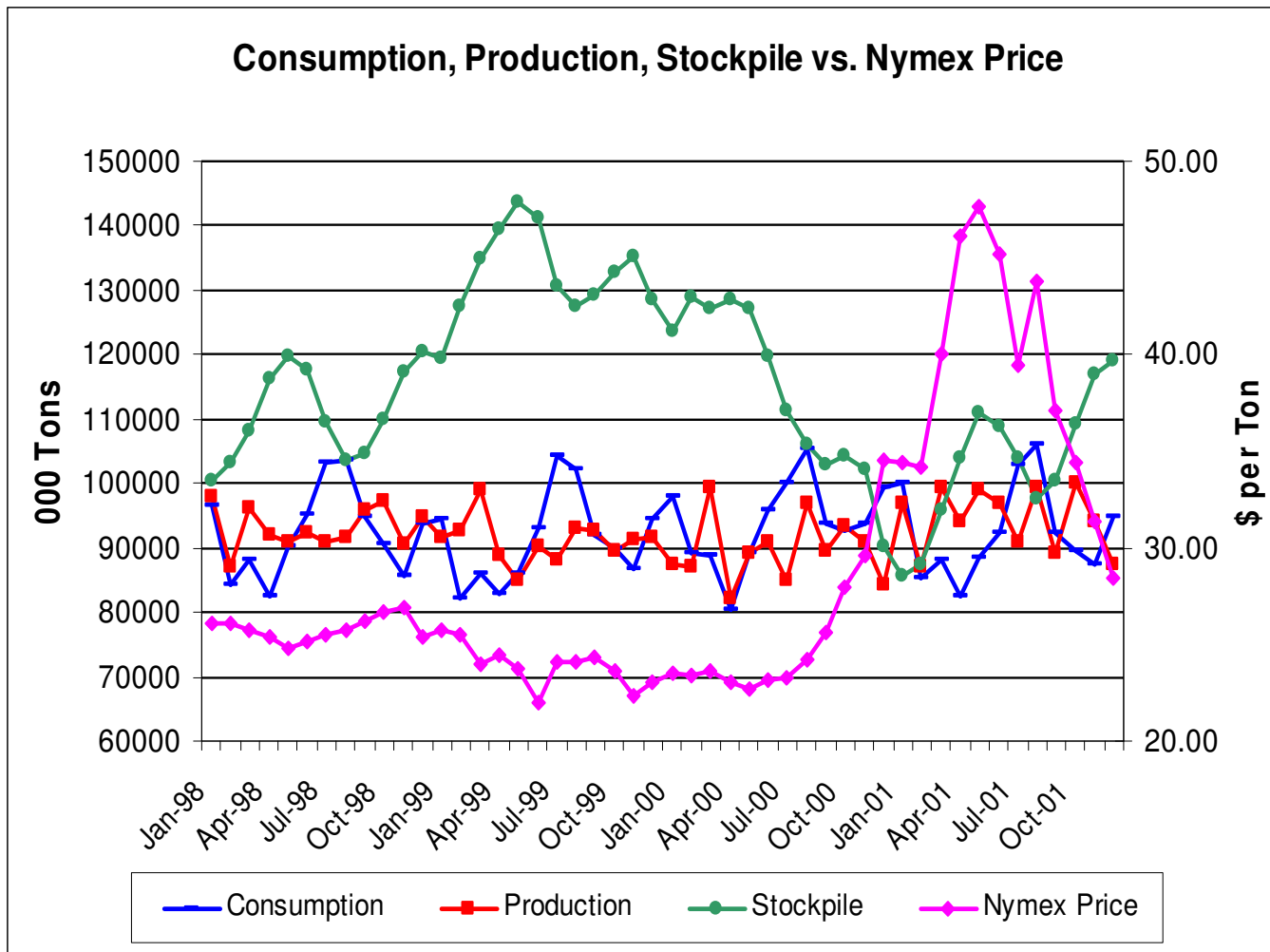
- Participation by Natural Buyers & Sellers
- OTC Coal Activity – volume, products
- OTC Prices versus Producer Cash Cost
- Natural Gas – Consumption, Storage and Futures
- Barge Coal (Nymex) versus Rail Spread
- Vaughn's View of the Market (*maybe*)

Market Volatility Does Exist

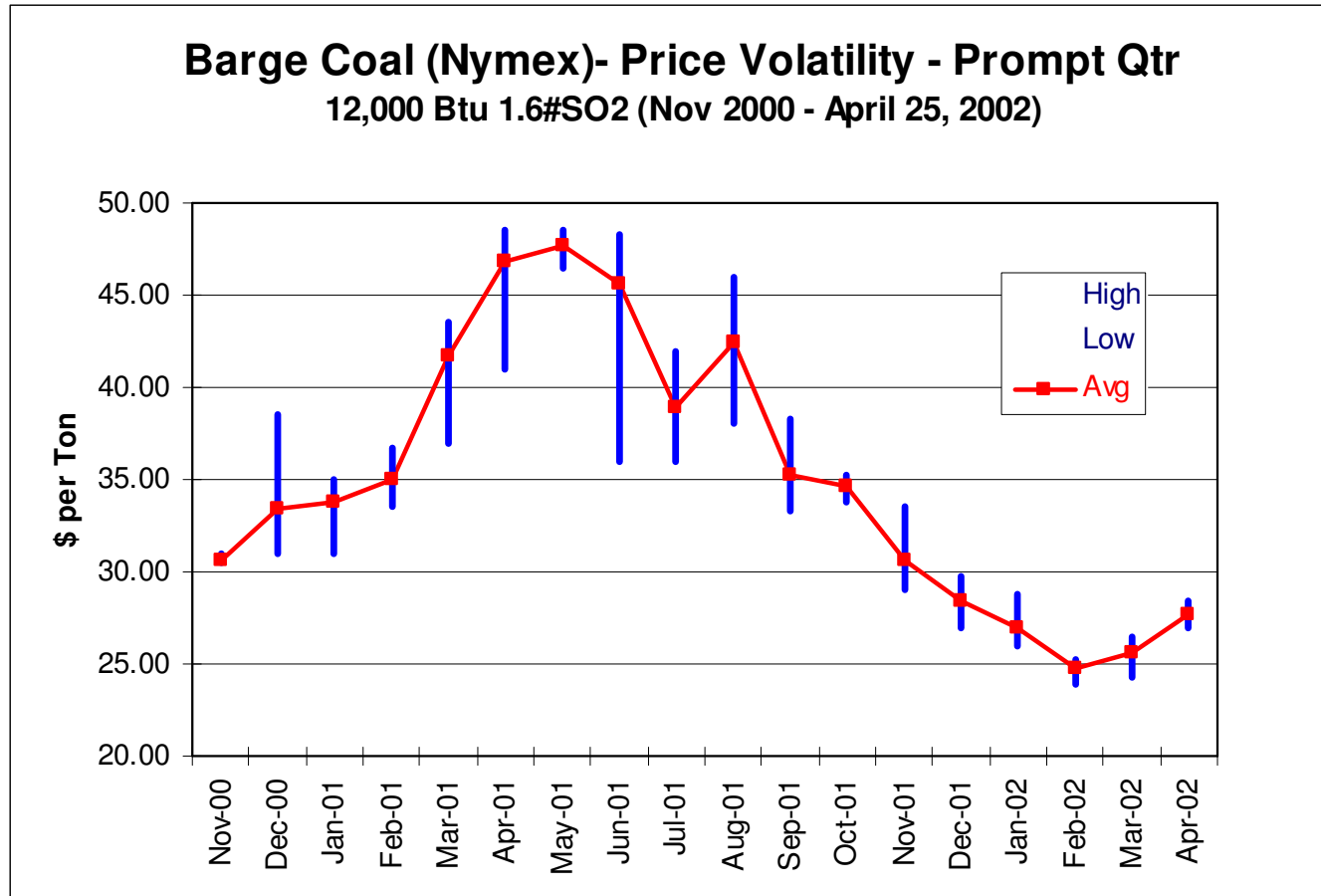
Month-to-Month Supply-Demand Comparison



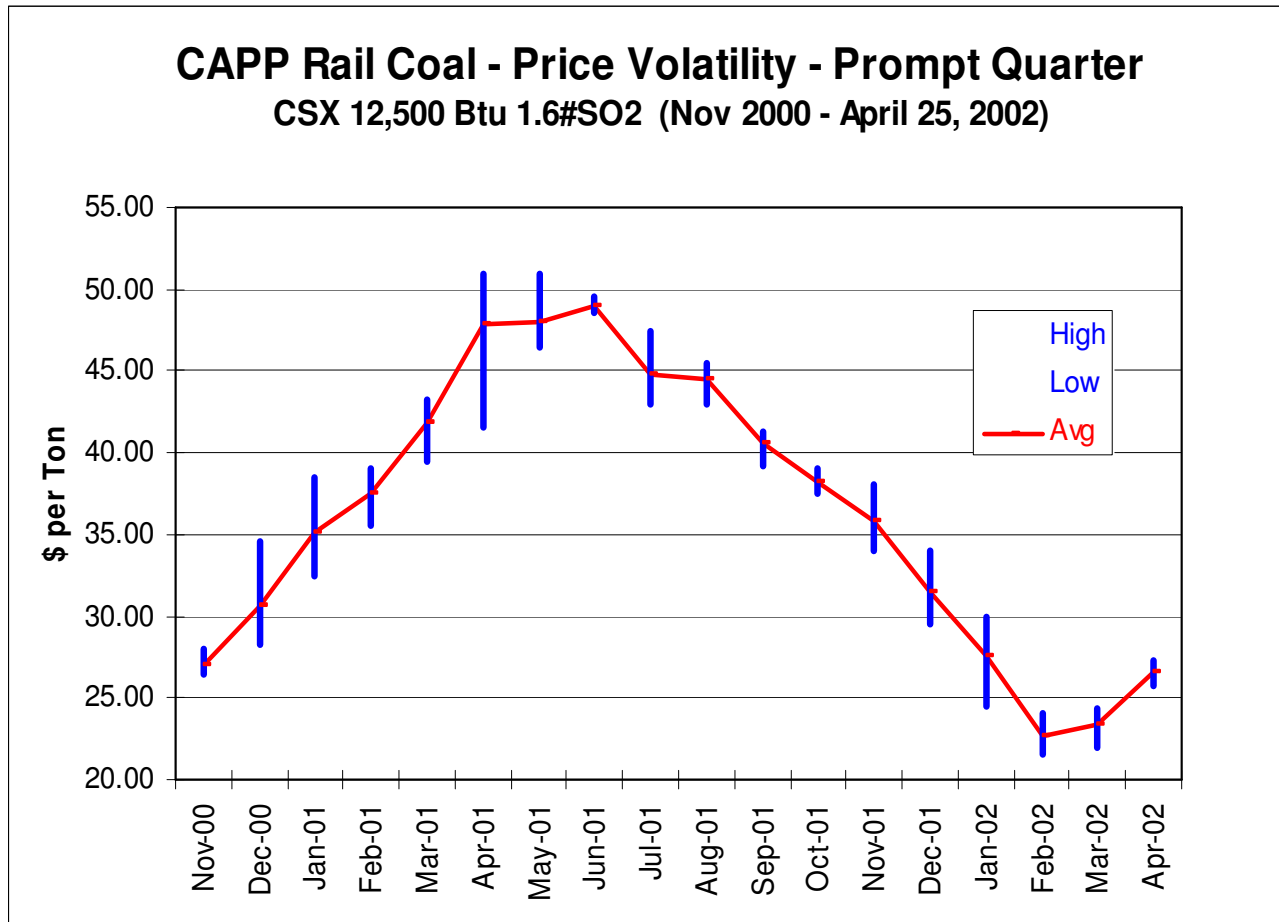
Month-to-Month Comparison with CAPP Barge (Nymex) Price



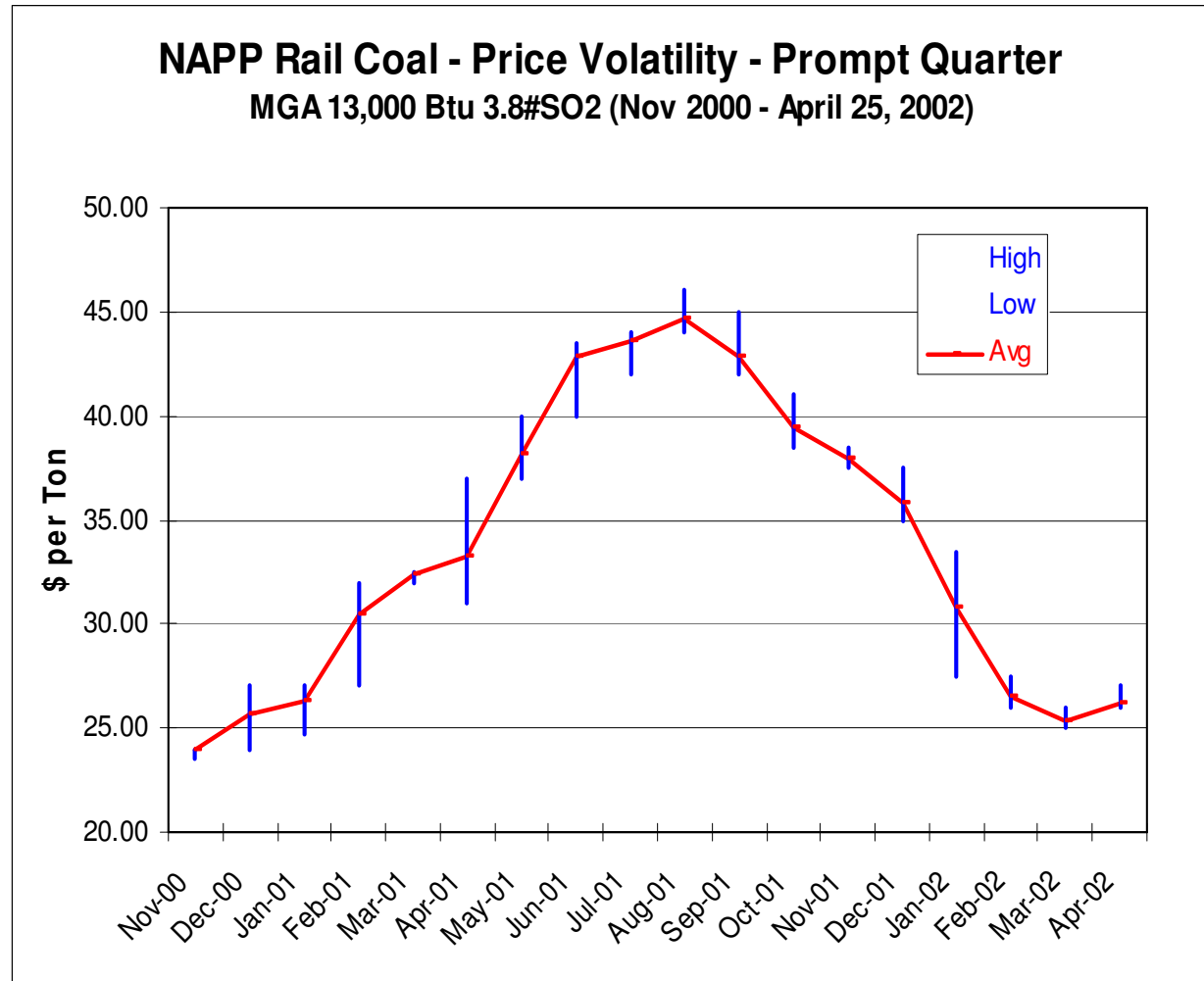
Price Volatility – CAPP Barge Market



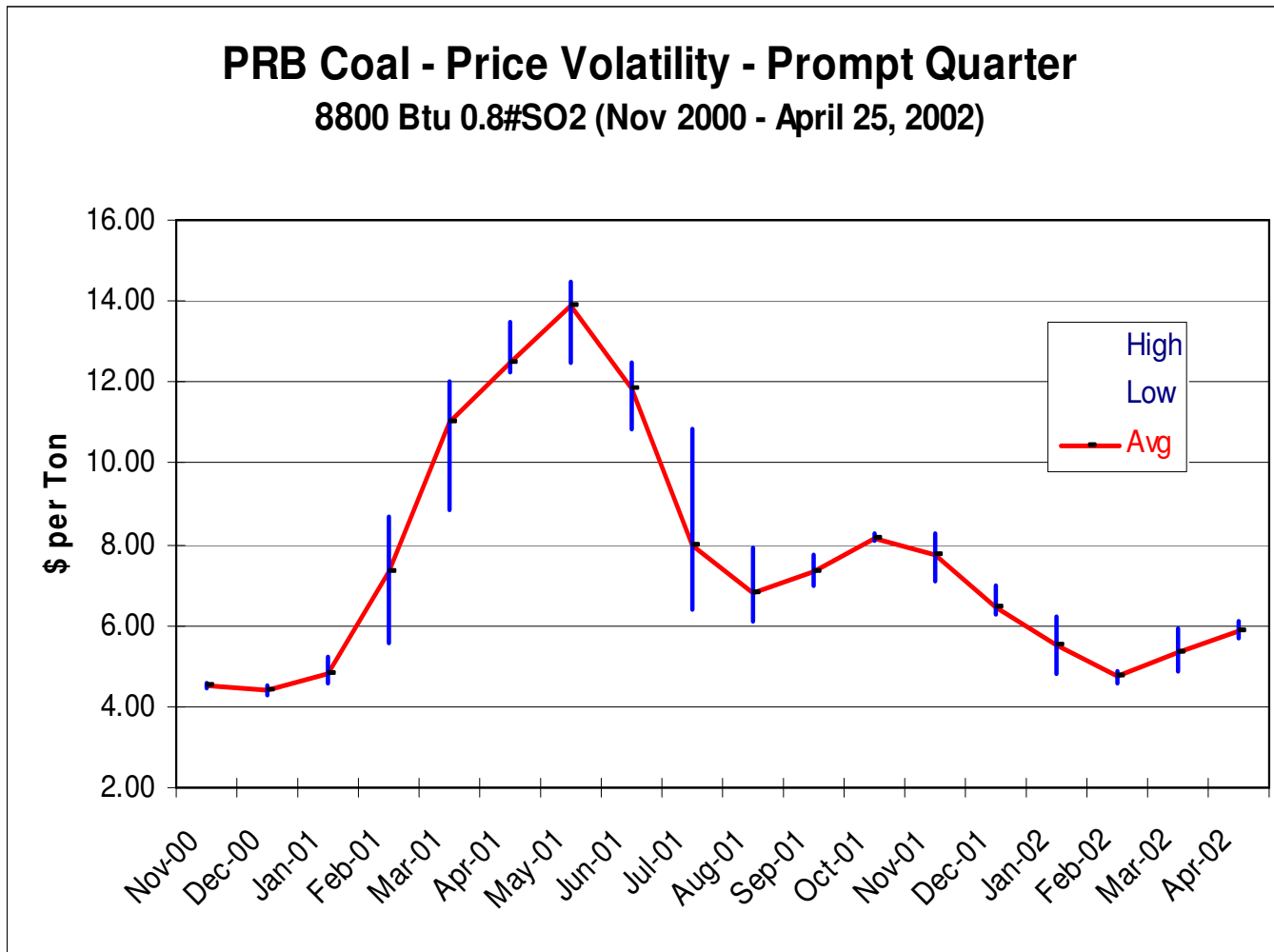
Price Volatility – CAPP Rail Market



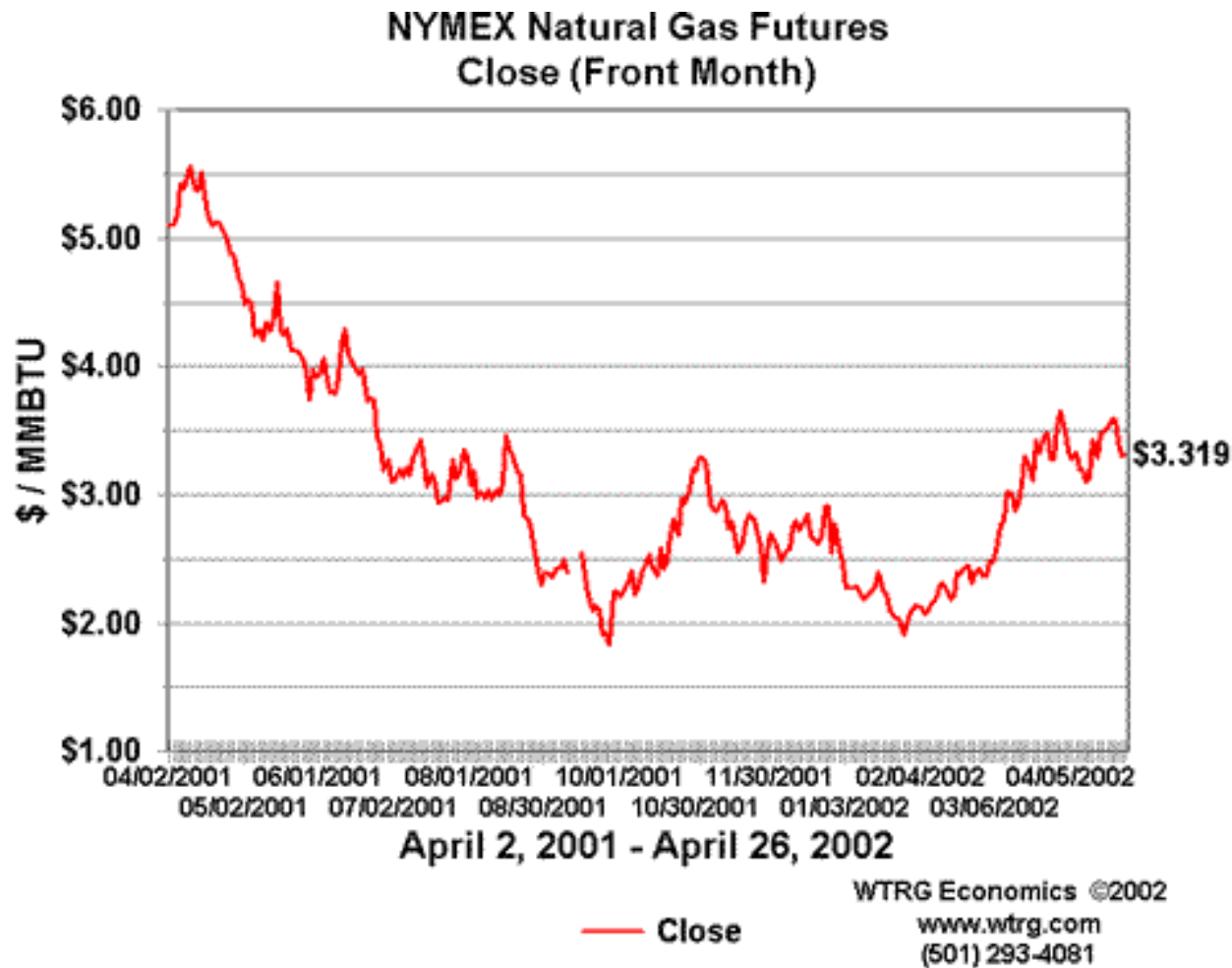
Price Volatility – NAPP Rail Market



Price Volatility – PRB Market



Price Volatility – Nymex Natural Gas

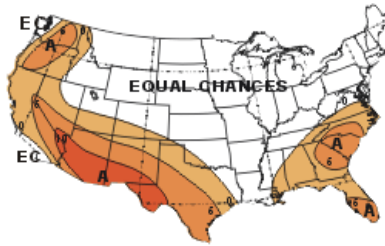


Weather's Temperatures Probability

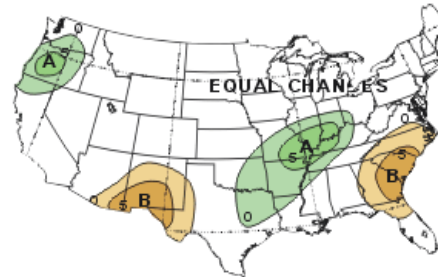


Monthly Outlook

May 2002
Temperature

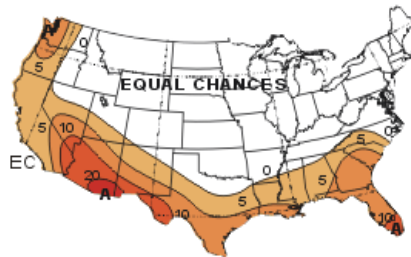


May 2002
Precipitation

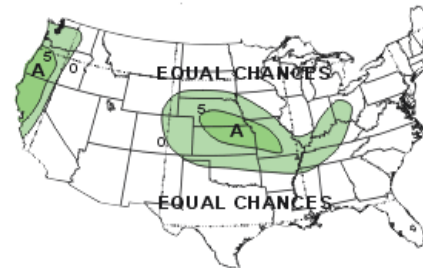


Seasonal Outlook

May - July 2002
Temperature



May - July 2002
Precipitation



Release Date: April 18, 2002

Source: Climate Prediction Center

Strategies for Sellers in a Weak Market



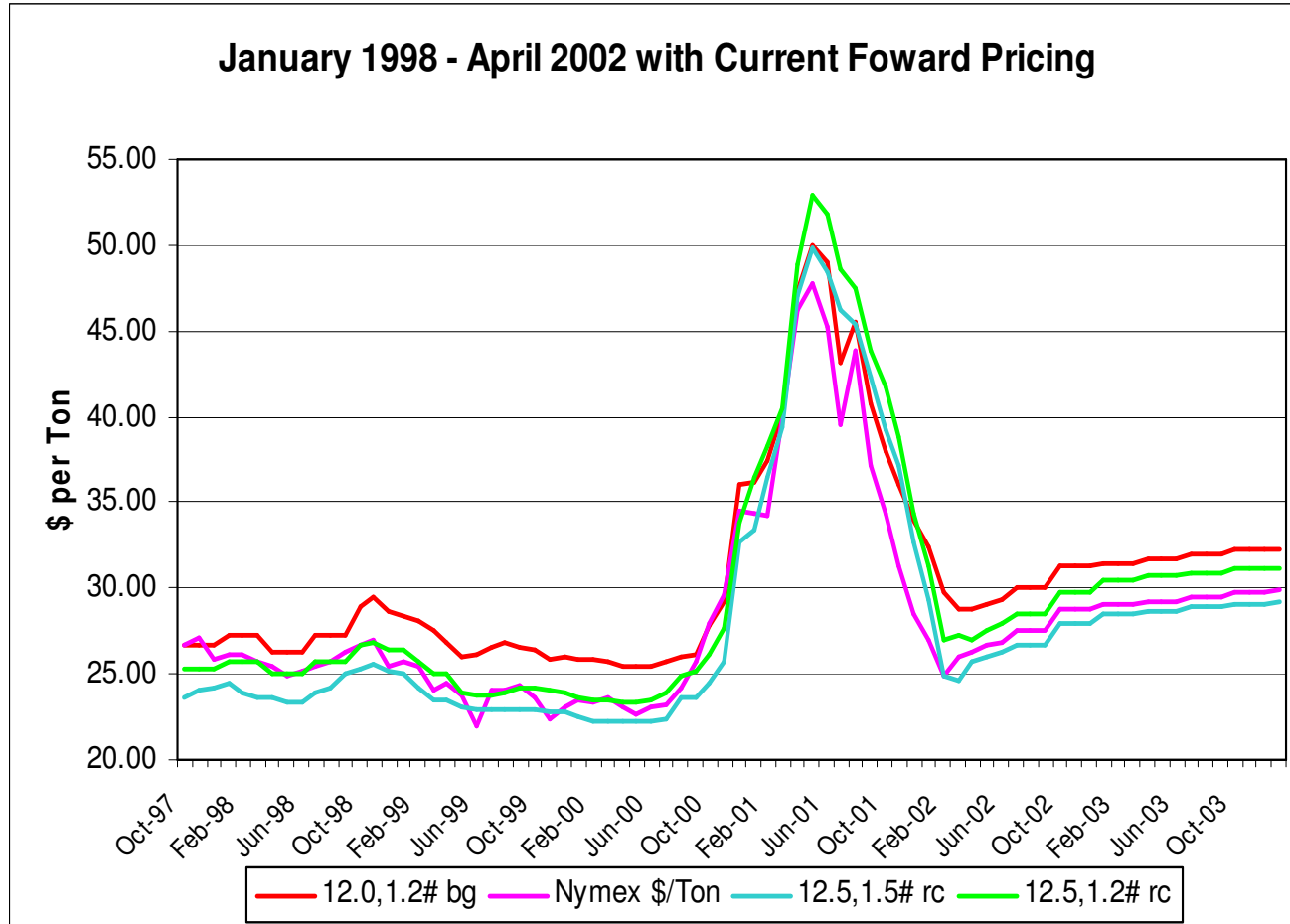
- Know Forward Price Curves
- Mark-to-Market
- Market Price Averaging
- Use the OTC to Hedge
 - Buy below cost, sell back later
 - Options speak louder if used
- Utilize Standardized Buy-Sell Contracts
 - Provides liquidity, sourcing rights, no free options

Strategies for Buyers in a Weak Market



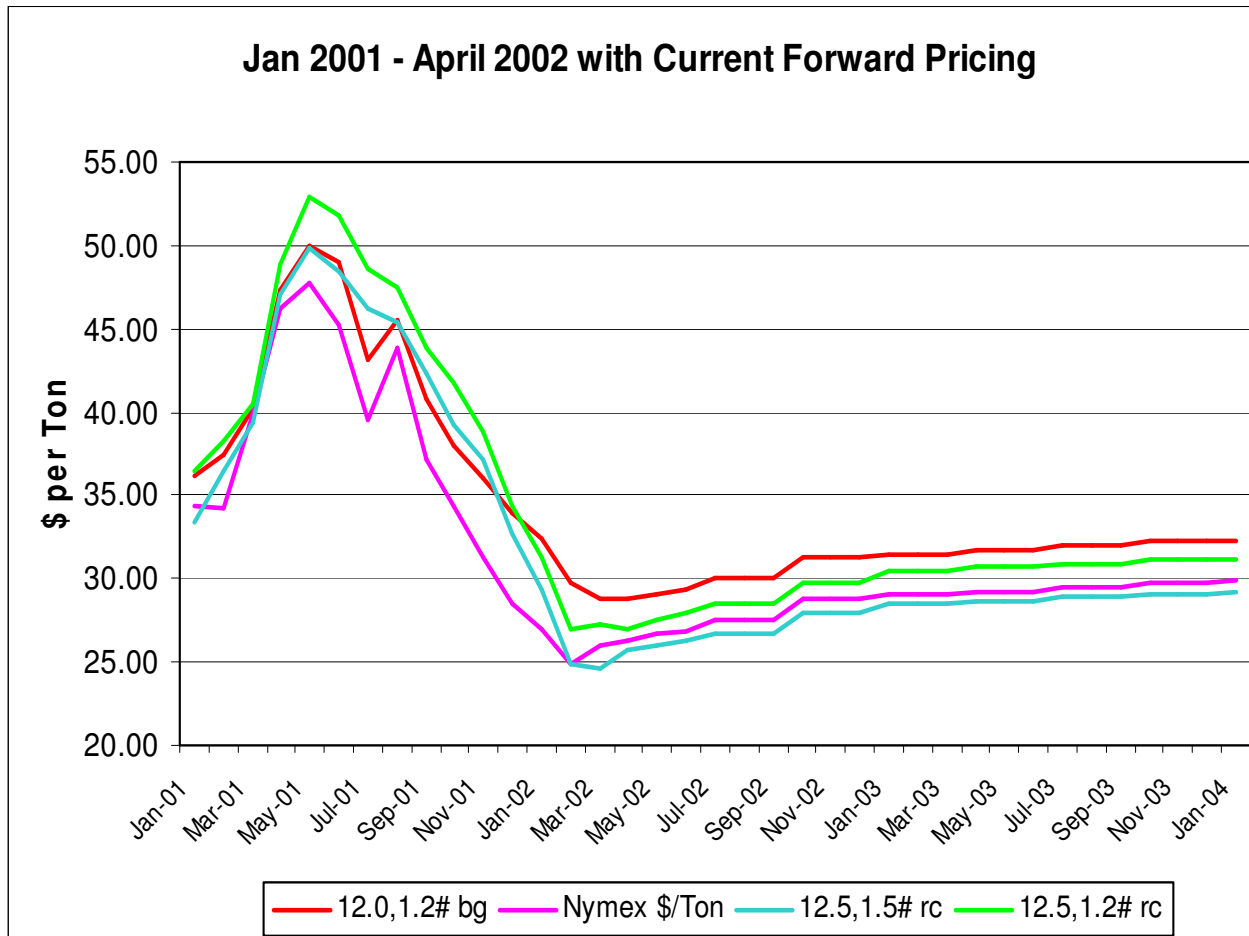
- Mark-to-Market
- Market Spreads versus Actual Cost of Carrying
- Readiness to Participate
- Use Paper along with Physical
 - Liquidity in OTC-Nymex
 - Rail buyers can benefit from trading Nymex barge coal
- Buy Call Options, Sell Puts
- Utilize Standardized Contracts
 - Performance guarantee

Forward Price Curve – CAPP Coals



Forward Price Curve – CAPP Coals

Closer look of the price spreads between barge and rail coals



Current Market –Standardized Coals



Vauglin's View of the Market - a perspective provided by United to assist in marking coals to market April 25, 2002

Nymex & PRB Midmarks												
Origin	Btu	#SO2	Apr	May	Jun	Q3	Q4	Q1 '03	Q2	Q3	Q4	Q1' 04
Nymex	12000	1.6	26.25	26.63	26.88	27.50	28.50	28.75	29.00	29.50	29.75	29.58
BNSF / UP	8400	0.8	4.55	4.55	4.55	4.70	4.80	5.10	5.30	5.50	5.70	5.70
BNSF / UP	8800	0.8	5.65	5.70	5.70	5.80	5.90	6.30	6.50	6.70	6.80	6.80
CAPP Coal												
Origin	Btu	#SO2	Apr	May	Jun	Q3	Q4	Q1 '03	Q2	Q3	Q4	Q1' 04
BS Rvr	12000	1.2	28.75	29.13	29.38	30.00	31.00	31.25	31.50	32.00	32.25	32.08
CSX-BSK	12500	1.2	26.75	27.50	27.85	28.15	29.35	30.50	30.75	30.90	31.05	31.20
CSX-BSK	12500	1.6	25.25	26.00	26.25	26.40	27.60	28.25	28.50	28.65	28.80	28.95
CSX-BSK	12000	2.0	23.00	23.50	24.00	24.50	25.50	26.25	26.50	26.65	26.80	26.95
NS-T/K	12500	1.2	26.25	27.00	27.60	28.00	29.25	30.65	30.90	31.05	31.20	31.35
NS-T/K	12500	1.6	24.75	25.50	26.00	26.25	27.50	28.40	28.65	28.80	28.95	29.10
NS-T/K	12000	2.0	22.75	23.25	23.75	24.25	25.50	26.40	26.65	26.80	26.95	27.10
NAPP Coal												
Origin	Btu	#SO2	Apr	May	Jun	Q3	Q4	Q1 '03	Q2	Q3	Q4	Q1' 04
Rail	13000	2.5	28.50	29.00	29.00	29.50	30.00	30.75	31.00	31.25	31.25	31.75
Rail	13000	3.8	26.00	26.00	26.00	26.50	27.00	27.75	28.00	28.25	28.25	28.75
Rail	13000	4.5	23.00	23.00	23.00	23.50	24.25	25.00	25.25	25.50	25.50	26.25
Barge	13000	3.8	26.00	26.00	26.00	27.00	27.50	28.25	28.50	29.00	29.00	29.50
ILB Barge Coal												
Origin	Btu	#SO2	Apr	May	Jun	Q3	Q4	Q1 '03	Q2	Q3	Q4	Q1' 04
OH Rvr	11600	2.5	26.25	26.25	26.25	26.75	27.00	27.50	27.50	27.50	27.50	28.00
OH Rvr	11800	5.0	22.75	22.75	22.75	23.25	23.50	24.00	24.00	24.00	24.00	24.50
Colorado Coal												
Origin	Btu	#SO2	Apr	May	Jun	Q3	Q4	Q1 '03	Q2	Q3	Q4	Q1' 04
Rail	11700	0.80	15.75	15.75	15.75	15.75	15.75	16.00	16.00	16.00	16.00	16.00
Rail	11100	0.80	12.50	12.75	12.75	13.00	13.00	13.25	13.25	13.25	13.25	13.25

The market information contained herein is based on recent trades and recent market quotes. Prices should not be construed as a recommendation to buy or sell.

“Failure to prepare is preparing to fail”



- Know the market indicators
 - Gas, Power, Weather, Stocks
- Mark coals to market
- Use OTC market to hedge against price volatility
- Don't give away options
- Move toward standardized contracts
- Know and use the price spreads
- Utilize all market information, including Vaughn's View