

Coal Markets Update Coal Supply and Pricing Trends

ICAP United Inc -Coal Desk

American Coal Council's Coal Market Strategies Conference 2008



WHO WE ARE...



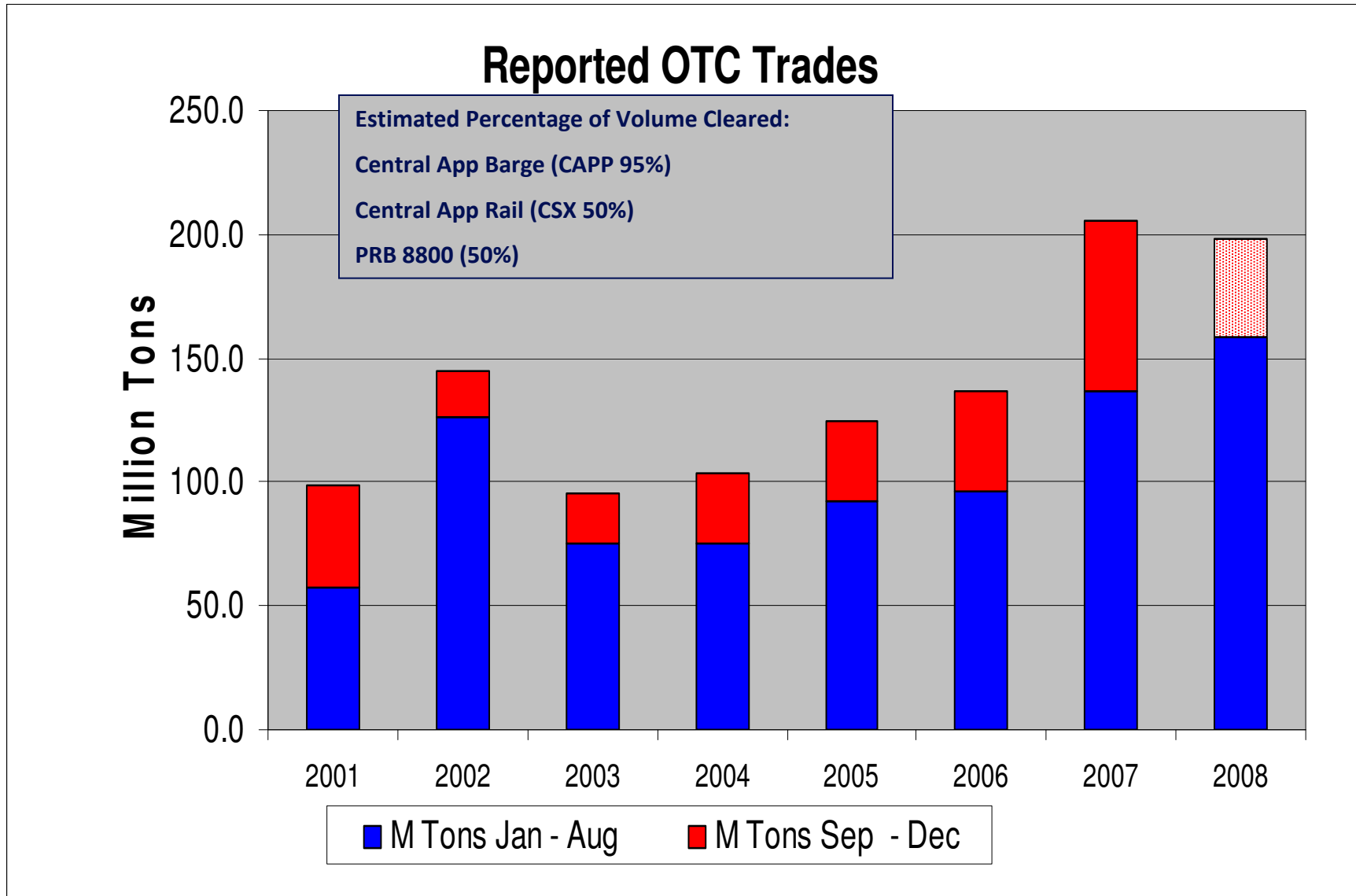
- **Division of ICAP (IAP.L), world's largest interdealer financial broker**
- **ICAP Energy is a leader in natural gas, power, crude, coal, emissions, and other OTC energy products**
- **ICAP Energy bought United Power in 2005, and merged the domestic coal desks in 2007, using the name ICAP United**
- **Domestic coal desk made up of four brokers, headquartered in Louisville, KY - Dan Vaughn, Ian Tapsall, Manzar Iqbal, Matt Keck**

WHO ARE THE PLAYERS?



- **ICAP United brokered coal deals with over 100 different counterparties in the past 12 months (Over 130 counterparties since 2001)**
- **26 Regulated Utilities, 13 Unregulated Utilities, 31 Producers, 21 Banks/Traders, 11 Coal Dealers**

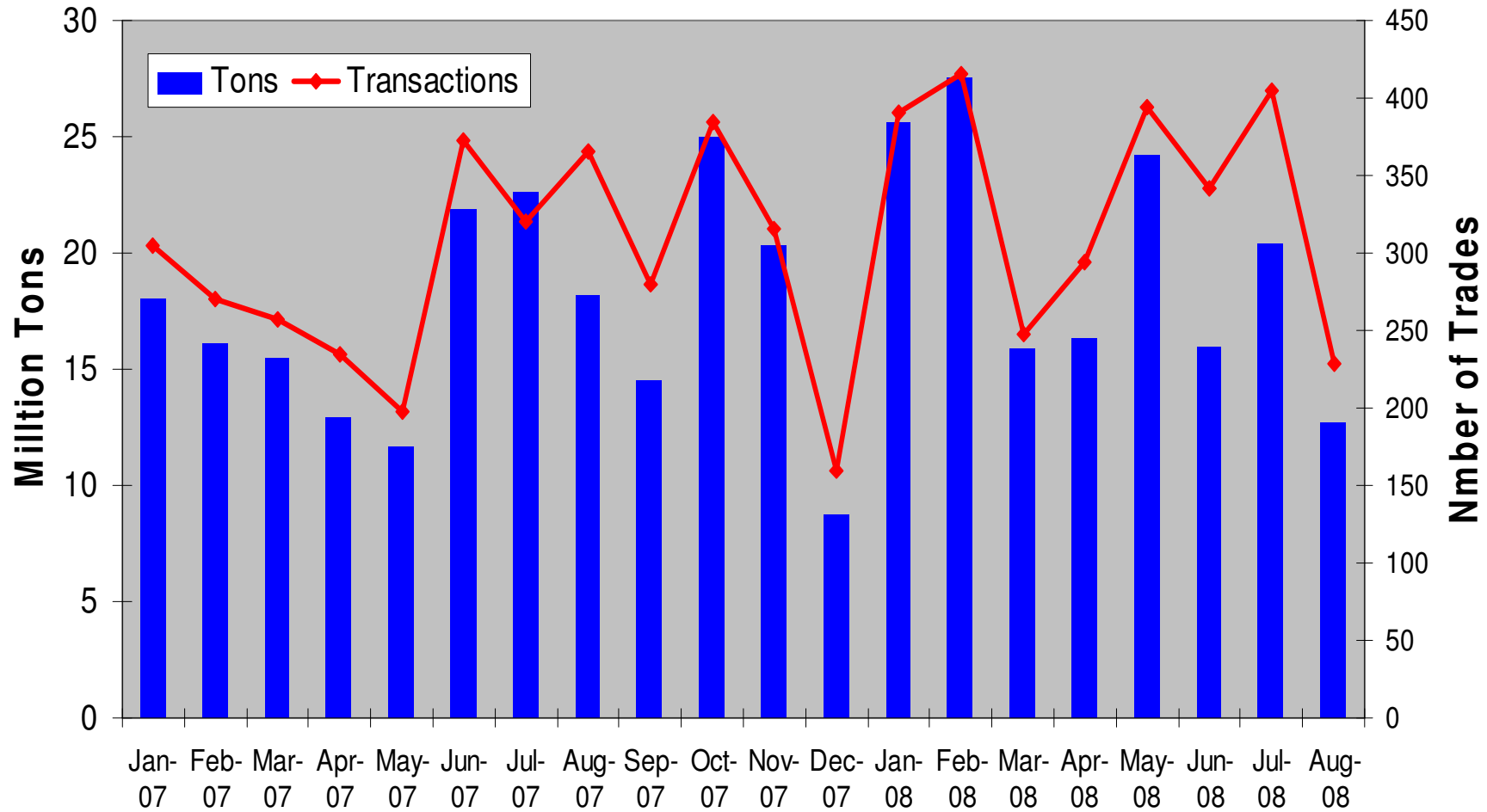
HOW MUCH IS TRADING?



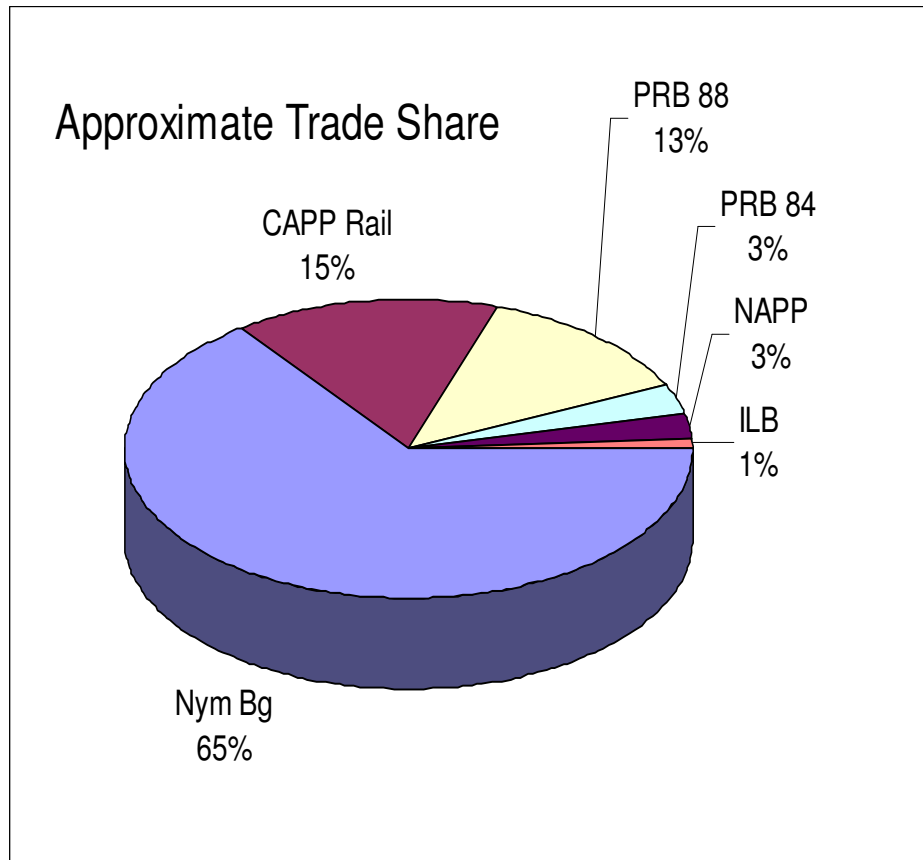
HOW MUCH IS TRADING?



Reported OTC Coal Volume



WHAT ARE THE PRIMARY PRODUCTS?



- **“Nymex” look-alike barge (Big Sandy River, 12000 Btu, 1.% S)**
 - Cleared and Physical
- **“Rail” (CSX Big Sandy/Kan 12500 Btu, 1%S)**
 - Cleared as financial swap against the Platts OTC broker index
 - Also trades physical using bilateral credit, and as physical index
- **“PRB” (Rail 8800 Btu, 0.8 #SO2)**
 - Cleared as financial swap against the Platts OTC broker index
 - Also trades physical using bilateral credit, and as physical index

BENEFITS OF OTC MARKET



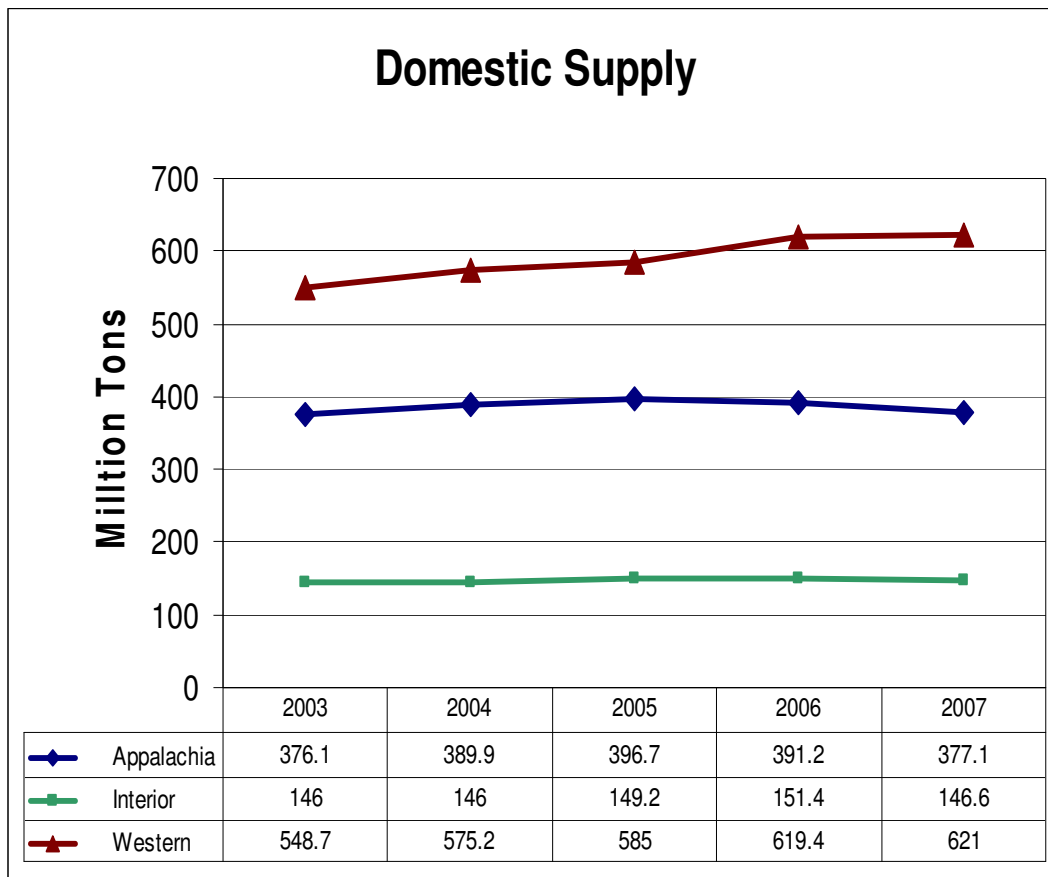
- Quick execution
- Liquidity not seen in direct market
- Clearing provides a good credit counterparty
- Provides price signals earlier than direct market
- Greatly impacts direct market

Get smart! Call your broker, call Dan.

LIMITED SUPPLY CREATES UNCERTAINTIES



Typically, a 3% supply/demand swing in CAPP will create price volatility...in Q1Q2 2008, demand up over 10%



Supply Outlook

- CAPP - decline
- NAPP - flat to lower
- ILB - growth
- PRB - growth
- West Bituminous – flat
- Imports – flat

World Coal Demand

- U.S. Exports - growth

IMPEDIMENTS TO SUPPLY



- Lack of Quality Coal Reserves
- Government Regulations
 - EPA and MSHA
- Workforce Recruitment
- Transportation Limits
 - Trucking, Barging, Rail
- Domestic Climate Change
 - Little political backing

MARKET DRIVERS



- API 2 and API 4 Prices
- Nat Gas Prices
- Crude Prices
- Value of Dollar
- Weather
- Coal Inventories
- World Coal Demand
 - Steam & Met Coal
- Transportation

NATURAL GAS FUTURES PRICE



**NYMEX Natural Gas Futures
Close (Front Month)**



Sep. 4, 2007 - Sep. 26, 2008

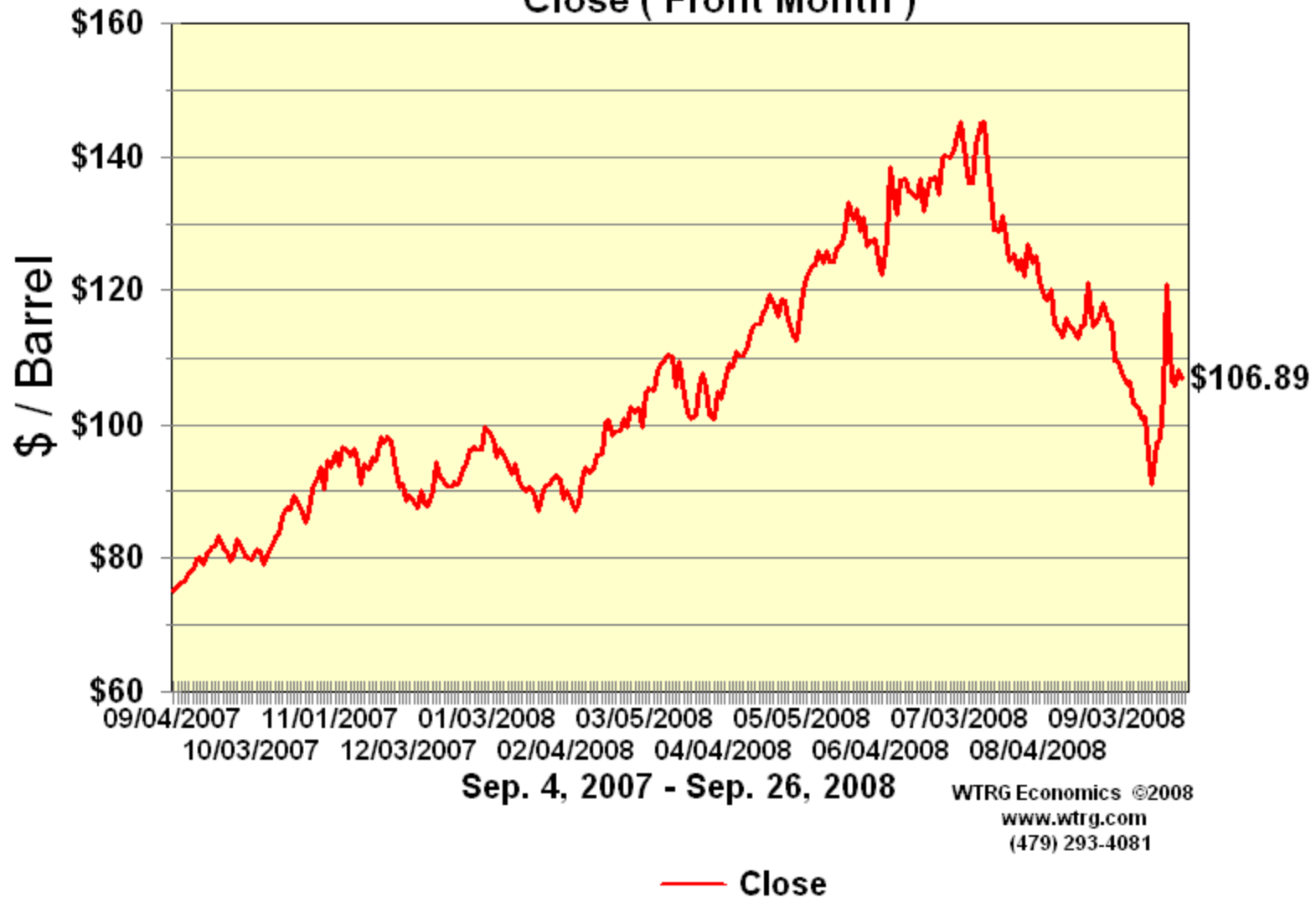
WTRG Economics ©2008
www.wtrg.com
(479) 293-4081

— Close

CRUDE OIL FUTURES PRICE



NYMEX Crude Oil Futures
Close (Front Month)

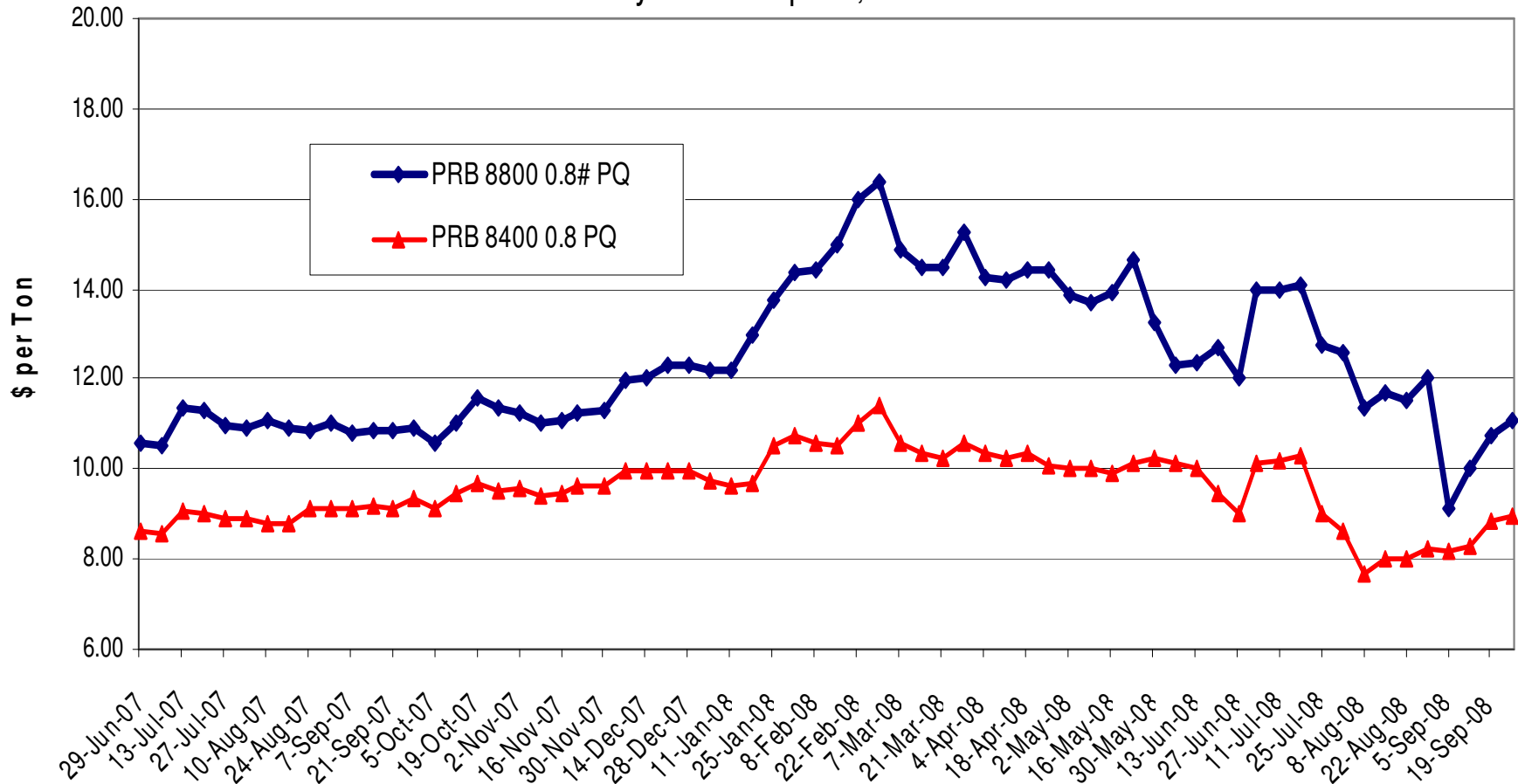


PRB COAL PROMPT QUARTER PRICES



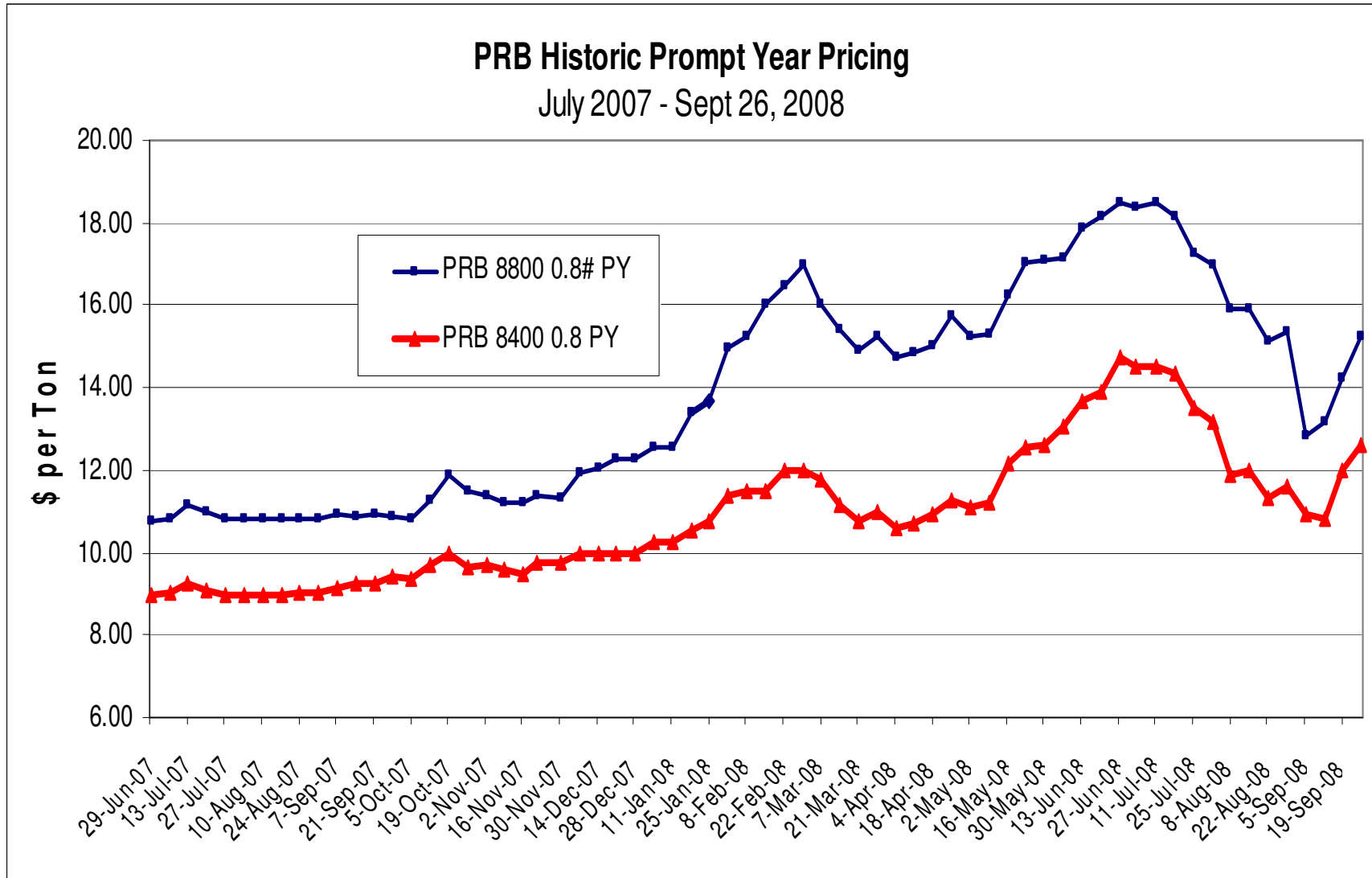
PRB Historic Prompt Quarter Pricing

July 2007 - Sept 26, 2008



Note: All pricing information sourced: Dan Vaughn, ICAP United

PRB PROMPT YEAR PRICING

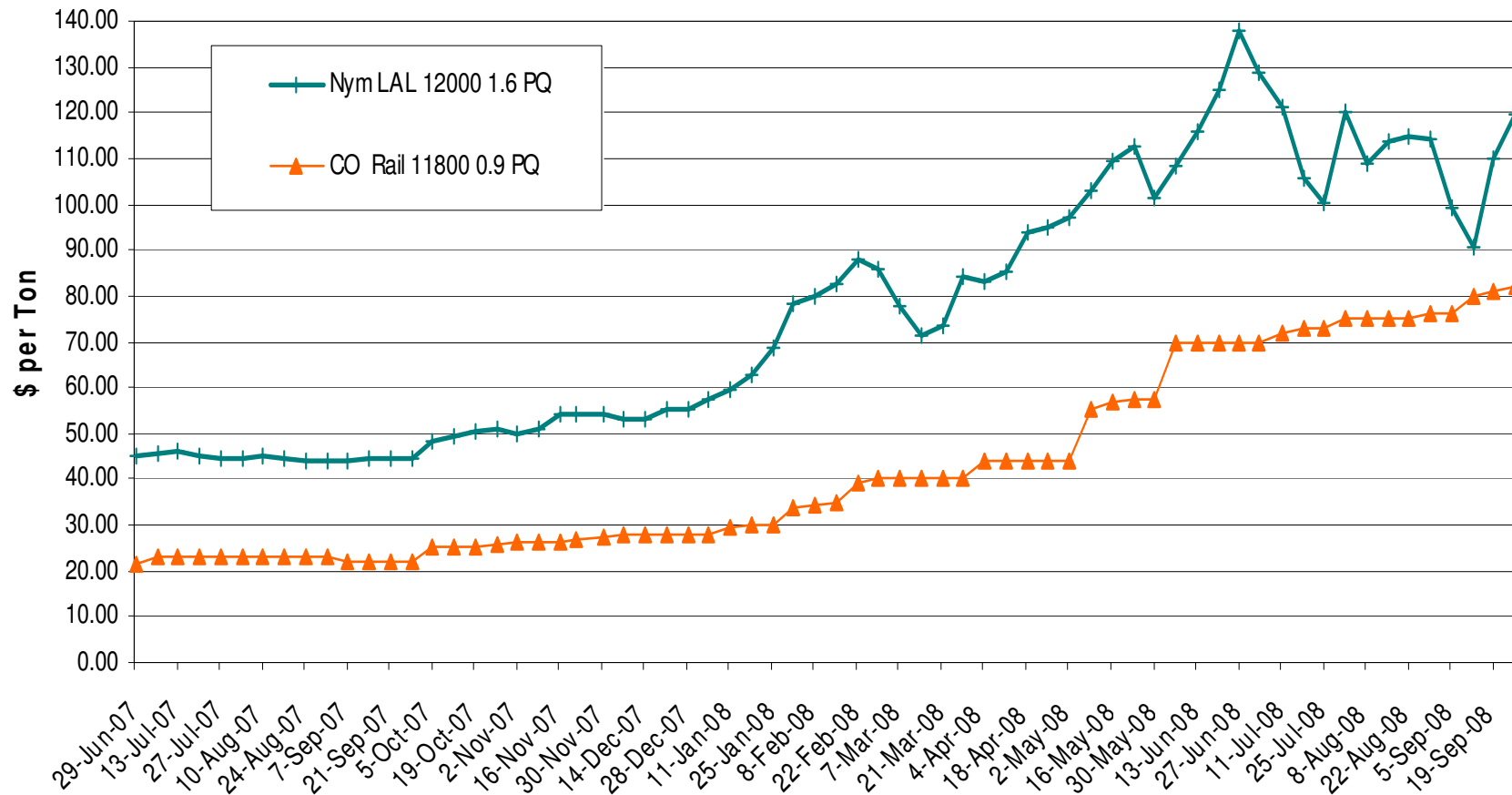


WESTERN COAL PROMPT QUARTER PRICES

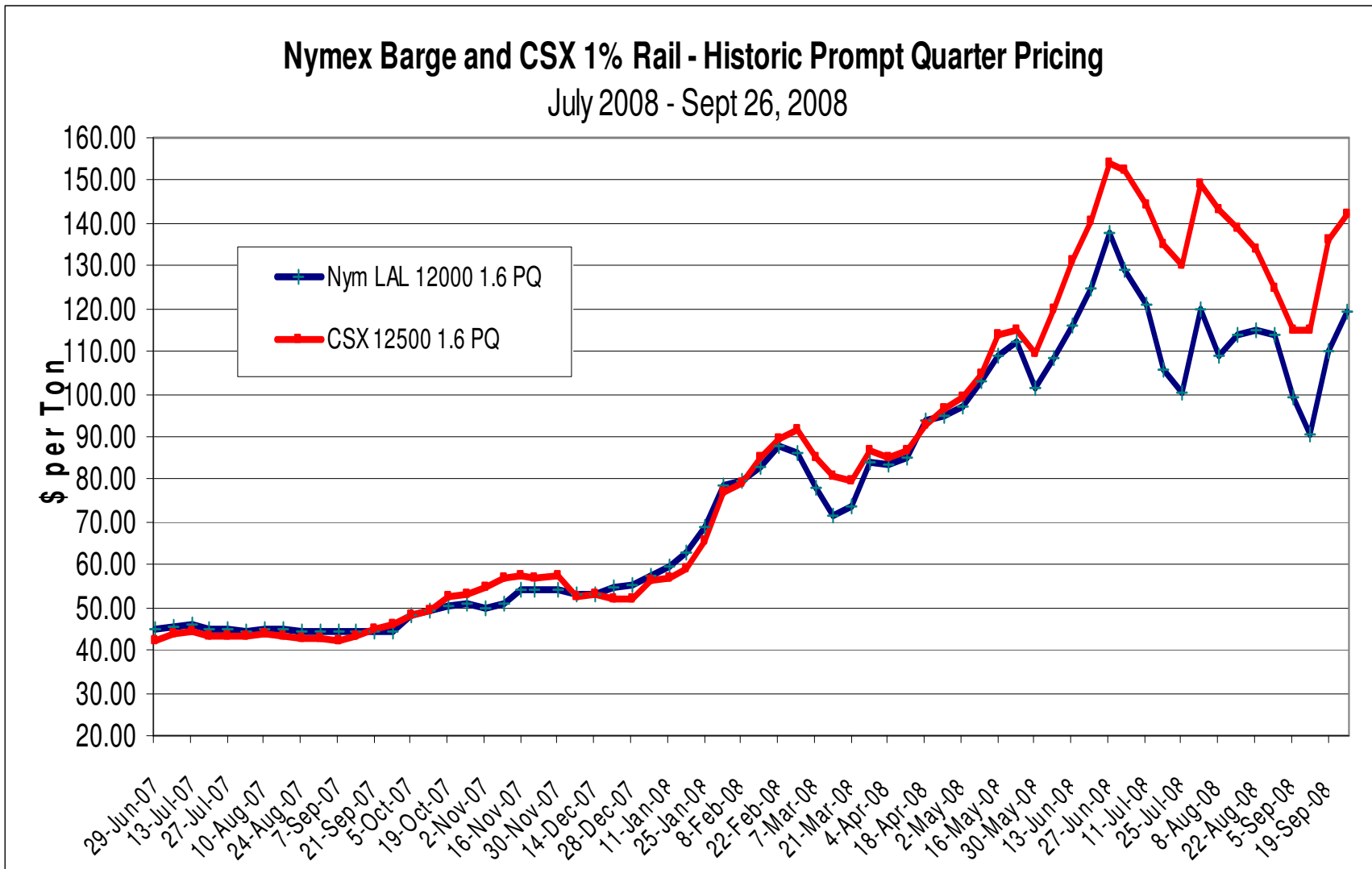


Western Bituminous Rail Coal Historic Prompt Quarter

July 2007 - Sept 26, 2008



CAPP COAL PROMPT QUARTER PRICES

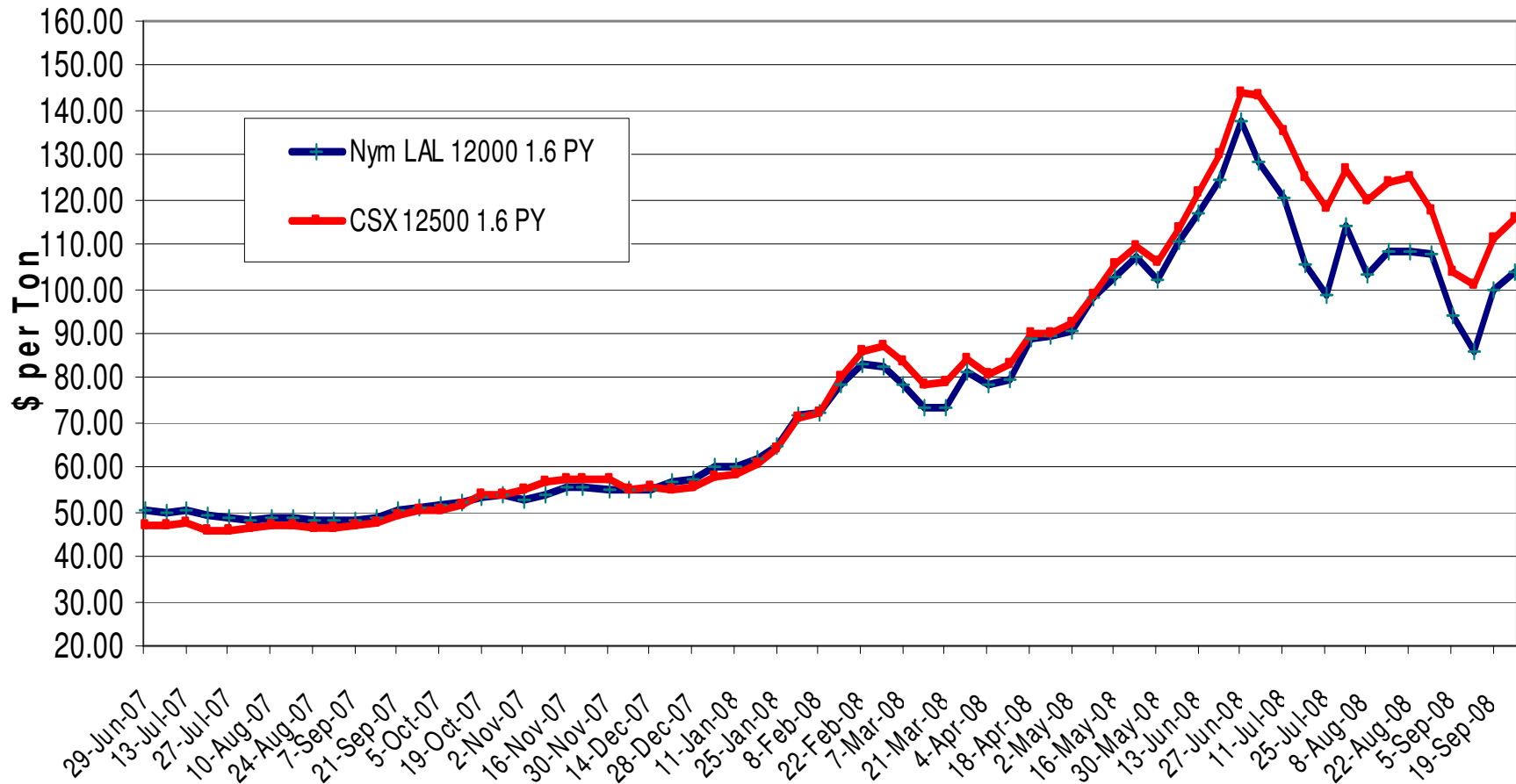


CAPP COAL PROMPT YEAR PRICES

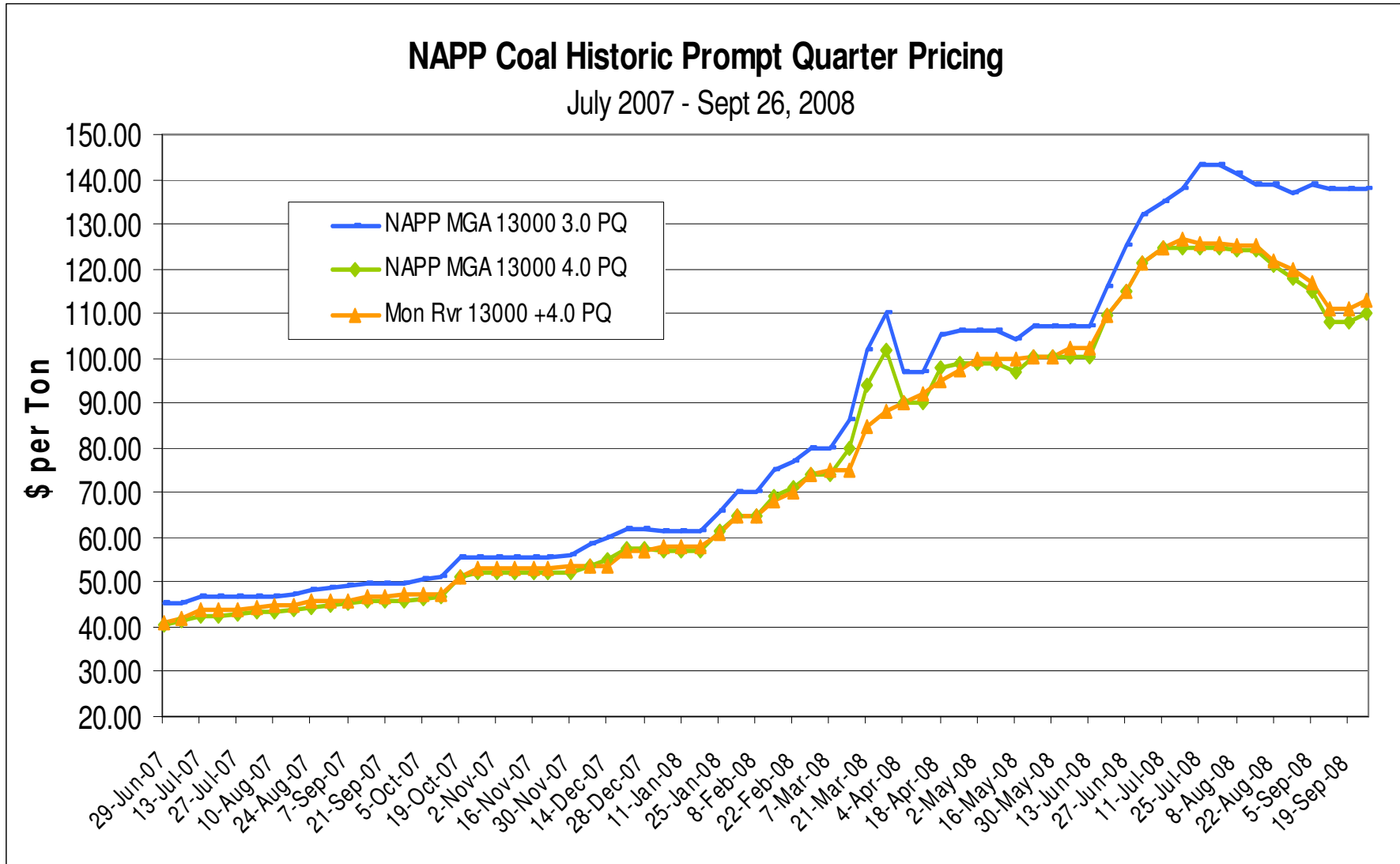


Nymex Barge and CSX 1% Rail - Historic Prompt Year Pricing

July 2007 -Sept 26, 2008



NAPP COAL PROMPT QUARTER PRICES

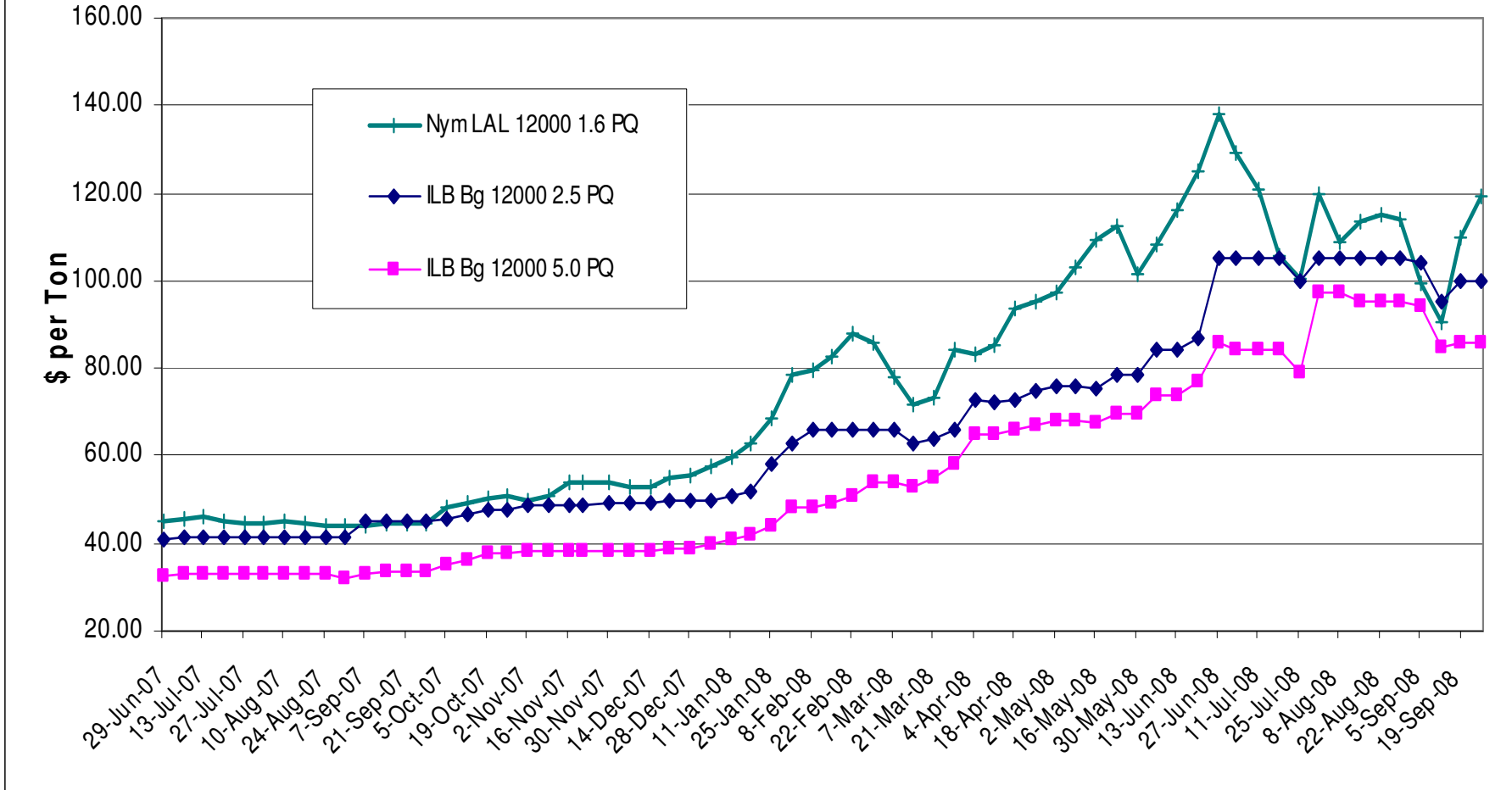


ILB BARGE COAL PROMPT QTR PRICES



Nymex and ILB Barge Coal Historic Prompt Quarter

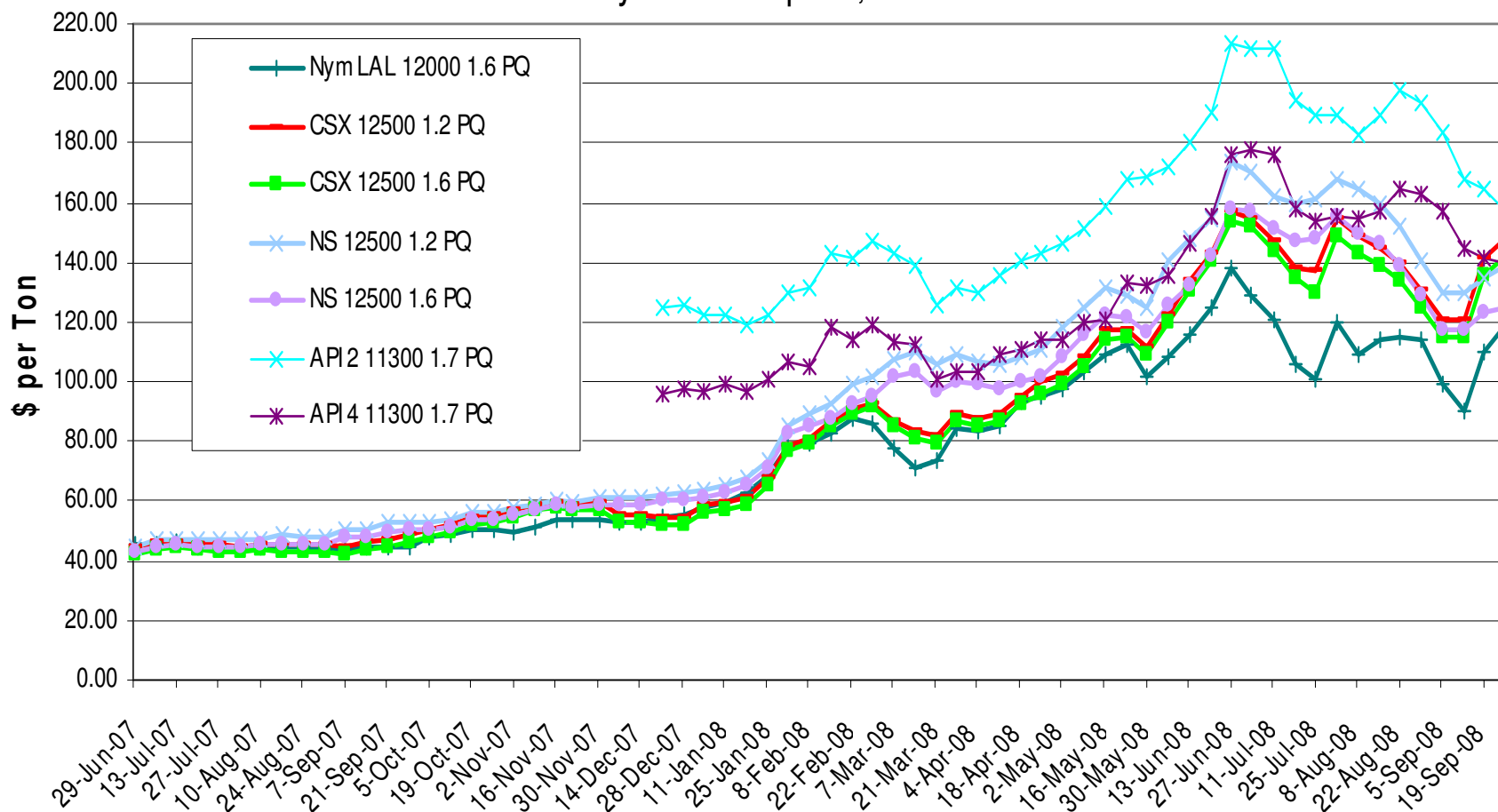
July 2007 - Sept 26, 2008



EASTERN & API COALS PROMPT QTR PRICES



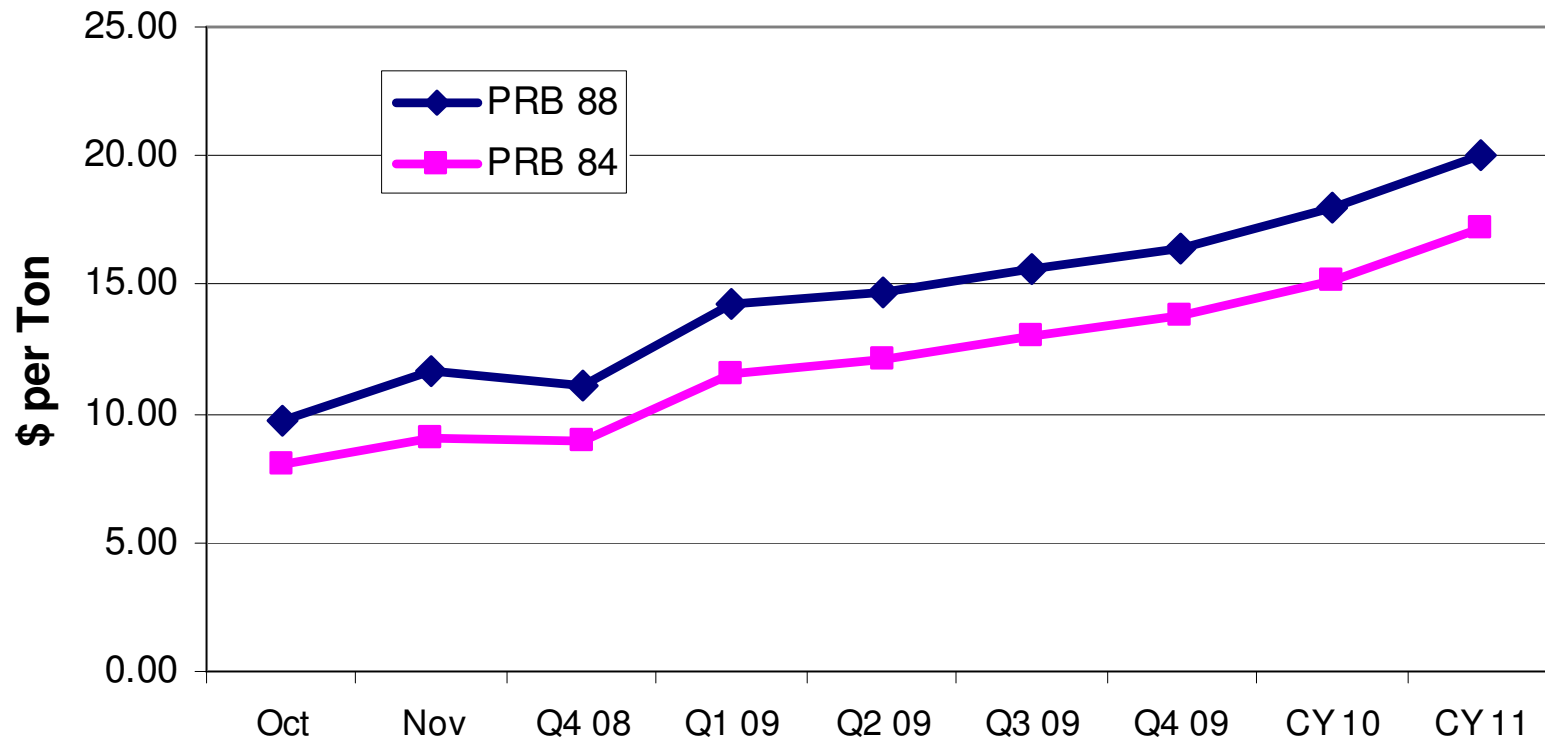
CAPP Coal Historic Prompt Quarter July 2007 - Sept 26, 2008



PRB FORWARD CURVE



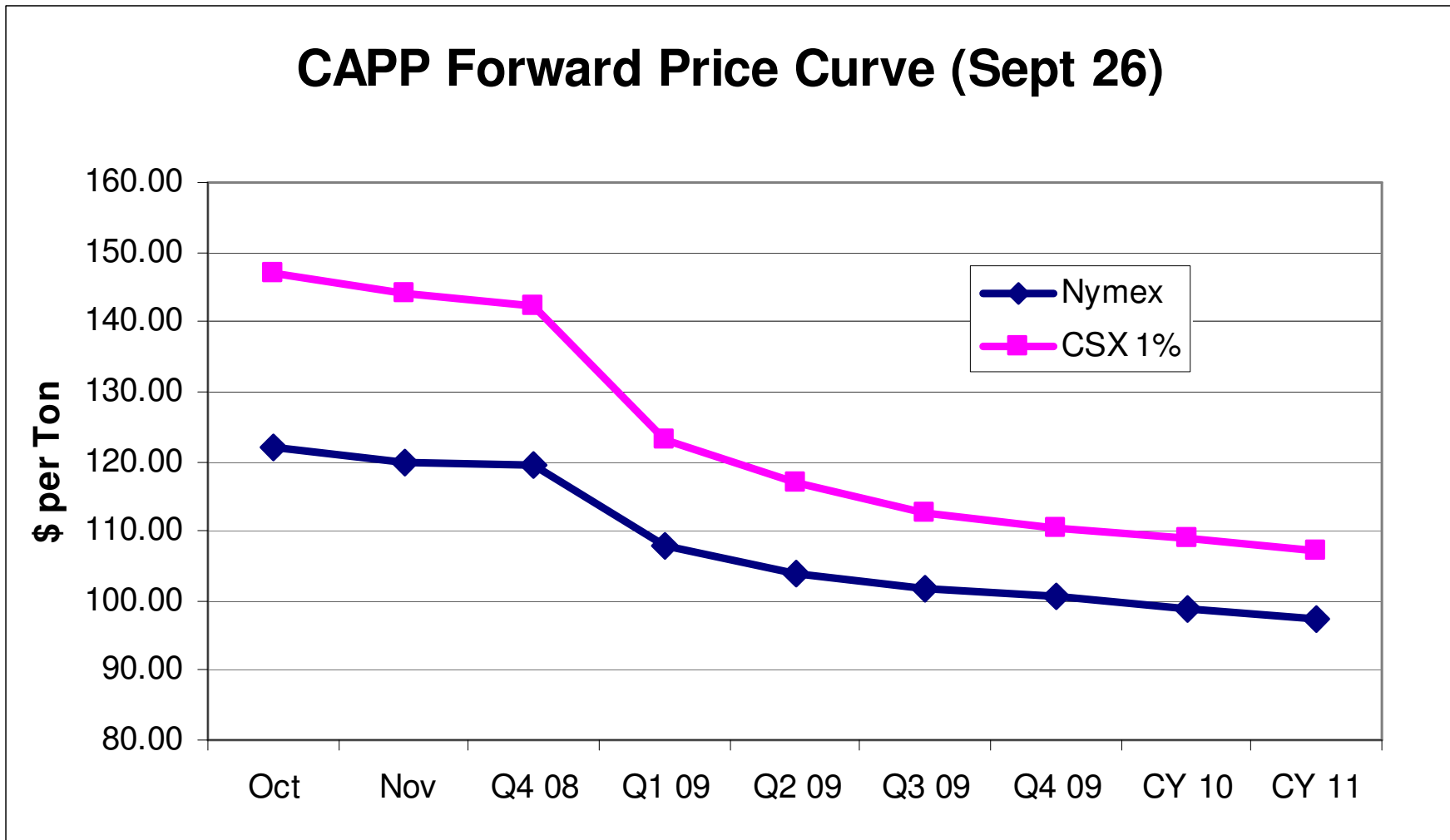
PRB Forward Price Curve (Sept 26)



CAPP FORWARD CURVE



CAPP Forward Price Curve (Sept 26)



...IN CLOSING



There are many methods for predicting the future. For example, you can read horoscopes, tea leaves, tarot cards, or crystal balls. Collectively, these methods are known as "nutty methods." Or you can put well-researched facts into sophisticated computer models, more commonly referred to as "a complete waste of time."

--- **Scott Adams**

Dan Vaughn Director, Coal Services

ICAP United, Inc. 417-336-5582