

Arch taps Jacobs Ranch mine



A full coal truck motors out of the pit at Black Thunder recently. Photo by Dan Cepeda, Star-Tribune

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Arch Coal Inc. announced Monday it has agreed to buy the Jacobs Ranch coal mine and 381 million tons of associated coal reserves in the Powder River Basin for \$761 million, with an intent to combine the operation with its adjacent Black Thunder mine.

"Jacobs Ranch represents an excellent strategic fit with Arch's existing assets in the Powder River Basin. The integration of Jacobs Ranch into the Black Thunder mine will create one of the world's largest and most efficient mining complexes," Steven F. Leer, Arch's chairman and CEO, said in a prepared statement on Monday.

Arch said it views the Jacobs Ranch workforce, which totals more than 600 people, as a "pivotal and value-creating component of the transaction."

As for the combined Jacobs Ranch and Black Thunder workforce of 1,800-plus, "only minimal job cuts will occur," according to Arch Coal.

Jacobs Ranch produced 42.1 million tons of coal in 2008 with about 632 employees. The mine had been up for sale for more than a year, along with Rio Tinto Energy America's other Powder River Basin mines, Antelope and Cordero-Rojo.

Those mines remain for sale.

London-based Rio Tinto announced recently it was cutting 14,000 jobs worldwide in an effort to shrink its \$40 million debt load. The job cuts were not expected to affect Rio Tinto's Powder River Basin operations.

Super-mine

Combining the Jacobs Ranch and Black Thunder mines would create a super-mine, adding some 13 square miles to the girth of Black Thunder mine's existing 38 square miles.

The super-mine would have a production capacity exceeding 130 million tons annually -- 12 percent of total U.S. coal production.

But the deal awaits federal regulatory approval.

Arch Coal's 2005 acquisition of Triton Coal Co. and its North Rochelle mine next to Black Thunder sparked a legal battle in which the U.S. Federal Trade Commission and a coalition of six Midwestern states alleged possible price collusion among southern Powder River Basin coal producers.

The deal eventually went forward with Arch agreeing to sell part of the North Rochelle property to Peabody Energy.

Arch Coal spokeswoman Kim Link noted that Monday's proposed acquisition of the Jacobs Ranch mine is different because it does not result in a net loss of southern Powder River Basin coal competitors. Whereas the 2005 buyout resulted in Triton's exit from the region, the acquisition of Jacobs Ranch would maintain the same three players; Arch Coal, Rio Tinto and Peabody Energy.

"We believe this transaction is pro-competitive. It doesn't change the number of players while it enhances the capture of operational efficiencies," Link told the Star-Tribune via email.

Marion Loomis, executive director of the Wyoming Mining Association, said the consolidation should make for a stronger coal industry in Wyoming in terms of weathering down markets and an uncertain regulatory environment.

As far as cornering the market on southern Powder River Basin coal, Loomis said he doesn't think there's a problem with Arch's proposed acquisition.

"It will have to be approved by the Federal Trade Commission. There's still a number of players in the basin," Loomis said.

"Synergies"

If approved, Arch's Black Thunder operation would gain a 120-cubic-yard dragline, eight large electric shovels and more than 40 large haul trucks. Black Thunder's existing fleet includes five draglines (one idle), 13 shovels and approximately 92 haul trucks.

The combined Black Thunder complex would have three coal-train loadouts -- capable of loading four trains simultaneously -- and 22 train landing spots, "which should collectively enhance availability and efficiency for the mine and customers," according to Arch Coal.

"The integration of Jacobs Ranch into the Black Thunder mine will create one of the world's largest and most efficient mining complexes," said Arch's Leer said. "Because Jacobs Ranch and Black Thunder share approximately six miles of property line, the combination is expected to create significant operating synergies."

The corporate word "synergies" often refers to job cuts, too. Although Arch expects resulting job cuts to be minimal, it expects cuts will go beyond normal attrition, according to Link.

"We place great value on the blending of ideas, skills and knowledge that will come with the combined Black Thunder and Jacobs Ranch workforces. It is premature to discuss the exact employment needs of the combined complex," said Link.

Nearly 100 percent of Jacobs Ranch's projected production for 2009 is committed and priced under existing sales contracts, according to Arch Coal. Additionally, more than 75 percent of Jacobs Ranch's projected 2010 production -- and nearly 50 percent of its 2011 production -- is committed and priced.

Based on 2008 data, Arch's reserves in the Powder River Basin would increase to 2.1 billion tons, and its total reserve base across all regions would increase to 3.2 billion tons.

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