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Worst Coal Quarter in Eight Can't Stop Gas Push: Energy Markets  
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By Mario Parker and Moming Zhou

April 1 (Bloomberg) -- For all coal's growing allure as an alternative to nuclear power, it's failing to attract utilities because natural gas remains a less costly and cleaner option for generating electricity.

While coal had its worst quarter since 2009 on the New York Mercantile Exchange in the past three months, gas is still at least 17 percent cheaper, according to Barclays Capital in New York and Houston-based Canaccord Genuity Inc. Power companies will keep switching to gas until 2013, Andre Benjamin, an analyst at Goldman Sachs Group Inc. in New York, said March 25.

President Barack Obama said March 30 the U.S. should exploit its shale-gas deposits as part of a long-term plan to guarantee energy in the wake of the nuclear emergency in Japan that followed the March 11 earthquake. About 40,000 tons of coal a day may have been displaced during the quarter in favor of gas, while six coal-fired units capable of burning a combined 1 million tons of the fuel a year were retired, according to Boulder, Colorado-based SNL Energy.

"We're going to see continued switching," said Jim Rollyson, an analyst in Houston at Raymond James Financial Inc., whose recommendations gave investors a 20 percent return in the past year. "We're able to find gas cheaply right now and it doesn't look like that's going to change anytime soon."

Natural gas fell 0.4 percent in the three months ended yesterday to \$4.389 per million British thermal units on the Nymex. Prices have gained 13 percent in the past year. Central Appalachian coal for May delivery climbed 13 cents to \$76.33 a ton, for a 4.6 percent drop as of March 30. Based on generic next-month prices as of March 30, coal's quarterly drop was the most since the three months ended March 2009. The May contract rose 1.9 percent to \$77.75 yesterday.

#### Retiring Plants

Coal generating stations with total capacity of about 30 gigawatts will be retired by 2015, and about 3 billion cubic feet a day of additional natural gas, or 15 percent of estimated 2011 demand from power plants, will be needed to replace those plants, according to SNL Energy, which collects and disseminates energy-industry information.

U.S. gas production rose 4.4 percent in 2010 as output from shale deposits grew, according to data from the Energy Department in Washington. The nation has enough gas to meet demand for 110 years, based on 2009 consumption levels, it said.

Coal is still the dominant fuel in power production, accounting for an estimated 45 percent of electricity this year. That compares with 49 percent five years ago, the Energy Department said in a March 11 report. The percentage of gas-fired electricity

will increase to a record 24 percent in 2011 from 20 percent in 2005, it said.

#### Coal Outlook

"We continue to search for reasons to become more positive on thermal coal," Benjamin said in a note to clients.

Gas prices are capped below \$4.50 per million Btu because of the burgeoning supply, New York-based Benjamin wrote in a note to clients on March 25. Shale production in the U.S. rose 47 percent in 2009 from 2008 to 3.11 trillion cubic feet, based on the most recent Energy Department data.

Gas prices might begin to rise, making coal more attractive, as countries reassess nuclear power in the aftermath of the radiation leaks at Japan's Fukushima Dai-Ichi nuclear plant, according to Brian Gamble, an analyst at Simmons & Co. Intl in Houston.

It costs a power plant \$37.08 per megawatt hour to burn coal for generation, compared with \$31.80 with gas, based on the March 29 of closing prices, said Billiana Pehlivanova, a New York-based analyst at Barclays Capital.

#### Coal Costs

Consumption of coal at U.S. power plants increased in three of the 13 weeks during the first quarter, according to Genscape Inc., a Louisville, Kentucky-based data provider.

Gas demand for power generation will rise to a record 20.28 billion cubic feet a day this year, according to the Energy Department.

Electricity generated from gas this year will be 21 percent higher than five years ago, while coal use will be 7.3 percent lower, Energy Department estimates show.

About 743,994 tons of coal went to the electric power sector through the third quarter of 2010, the Energy Department said in a Jan. 21 report.

Gas may also benefit outside of its discount to coal as Obama tightens environmental standards, Rollyson said. The Environmental Protection Agency last month proposed requiring utilities to install devices to cut mercury, arsenic and acid gases spewing from coal-burning plants.

"The cost of burning coal at utilities, particularly the environmental costs, seems like they're about to go up," Rollyson said.

#### Power Generation

Demand for the fuel to be used in electricity generation in the week ended March 24 was down 5 percent from a year earlier, according to Genscape, which says it monitors coal use in real time at power producers with a device installed in plants.

"Our price forecast remains favoring burning gas over coal for the next few years," said Cameron Horwitz, an analyst in Houston at Canaccord Genuity. "That trend will continue and gas will continue to be favored by power generators relative to coal, given the economics between the two fuels."

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