

NRP buys infrastructure at new Illinois coal mine

03/07/2012 by Barry Cassell

Coal landholder **Natural Resource Partners LP** (NYSE:NRP) **announced** March 6 that it has acquired the rail loadout, associated infrastructure assets and a contractual overriding royalty interest on certain tonnage at the Sugar Camp mine located near Benton, Ill., for \$58.85m.

The rail loadout and infrastructure assets were purchased from **Sugar Camp Energy LLC** and the contractual overriding royalty interest was purchased from **Ruger LLC**, both affiliates of the **Cline Group**. The acquisitions were funded with \$17.85m in cash and the remainder from NRP's credit facility.

NRP said it will be paid a throughput fee ranging from \$1.05/ton to \$1.17/ton over the first 20 years of the agreement, for all coal produced from the first longwall in the Sugar Camp mine and the associated development units. NRP will also be paid the greater of 3% of the gross selling price or \$1.14/ton for the tonnage associated with the contractual override, which has an anticipated life of seven years. The longwall commenced operation in late February and is expected to produce over 5 million tons of coal in 2012, NRP noted.

These transactions are immediately accretive and will add about \$7.5m to \$8.5m in additional cash flows to NRP's 2012 distributable cash flow, the company said.

Coal operator Chris Cline, through the various Cline Group companies, is developing several new longwall operations in Illinois that are or will produce high-sulfur coal out of the No. 6 coal seam for sale largely to U.S. power generators. NRP has entered a number of sale-leaseback agreements with the Cline companies that give NRP long-term income in terms of royalties to be paid over time. For Cline, these deals give him immediate cash for project development.

While the Sugar Camp mine was permitted under Sugar Camp Energy, it is listed with the U.S. Mine Safety and Health Administration as the MC#1 mine of **M-Class Mining LLC**. The mine turned out 855,868 tons in 2011, with 275,844 tons of that in the fourth quarter alone, which is a big bump from 324,493 tons produced in all of 2010, according to MSHA data.

In its Feb. 29 annual **Form 10-K filing**, NRP described two other properties in Illinois where it owns coal reserves and leases them back to Cline. **Williamson** - The Williamson property is located in Franklin and Williamson counties. The property is under lease to an affiliate of the Cline Group, and in 2011, 6.8 million tons were mined on the property from a longwall mine, said NRP. "Production is shipped primarily via **CN** railroad to customers such as **Duke** and to various export customers," said the Form 10-K. This is the first of the Cline longwall mines and is listed with the U.S. Mine Safety and Health Administration as the Mach No. 1 mine of **Mach Mining LLC**. **Macoupin** - The Macoupin property, located in Macoupin County, is under lease to an affiliate of the Cline Group, and in 2011, 1.8 million tons were shipped from the property. Production is from the Shay No. 1 room-and-pillar mine and is shipped via the **Norfolk Southern** or **Union Pacific** railroads or by barge to customers to midwest utilities or loaded into barges for shipment to export customers, said the Form 10-K. Shay No. 1, unlike the other Cline mines in Illinois, is a revamped version of a longstanding mine instead of a new operation. It is listed with MSHA under **MaRyan Mining LLC**, with MSHA data showing that production jumped from 1 million tons in 2010 to 1.8 million tons in 2011.

Cline mines in Northern Appalachia shut over geology issues

While all indications that Cline's Illinois mines are doing well, NRP hasn't fared well at two Cline room-and-pillar deep mines in Northern Appalachia where NRP bought coal reserves some time ago.

"Operations at the Gatling West Virginia mine were idled in April 2010 and had not been restarted as of the end of the third quarter 2011," said the NRP Form 10-K. "In October 2011, **Gatling LLC**, the Cline affiliate that owns the mine, informed us that it was no longer projecting production from the mine for the foreseeable future and is considering selling the mine. NRP and Gatling amended the lease with respect to this property to provide that the minimum royalty balance of \$24.1 million would be non-recoupable, that Gatling would pay \$3.4 million in non-recoupable minimum royalties through the first quarter of 2012, that the minimums would be reduced to a nominal amount after the first quarter of 2012, and that Gatling will continue to maintain and ventilate the mine. This property did not produce any coal in 2011 and NRP's 2012 guidance does not include any production or revenues for the property."

The Gatling LLC mine is located in Mason County, W.Va., right next to the Mountaineer power plant of **American Electric Power** (NYSE:AEP). The mine was supposed to be a major supplier via dedicated beltline to Mountaineer, but the problem geology never allowed the mine to reach full production. While the mine was permitted under Gatling LLC, it is listed with MSHA as the Broad Run mine of **Big River Mining LLC**. The mine hasn't produced coal since the second quarter of 2010, with output of 157,799 tons in the early part of 2010 before closure, and 408,378 tons in all of 2009, according to MSHA data.

Another Cline affiliate, **Gatling Ohio LLC**, has recently encountered adverse geologic conditions at its mine in Meigs County, Ohio. "This mine represents approximately 1% of our 2011 revenues," said NRP. "Historically, two continuous miner units have operated in the mine, but both of those two units have recently shut down due to the incursion of significant sandstone into the coal seam, and Gatling Ohio informed us in late December that it is uneconomical for it to continue to operate the mine, has idled the operation indefinitely and has declared force majeure on its coal sales contracts. The net book value of the assets relating to this operation was \$93.4 million as of December 31, 2011, prior to the impairment charge. As of the date of this report, we have received \$9.6 million in previously unrecouped minimum royalties."

This room-and-pillar mine was permitted under Gatling Ohio LLC, but is listed with MSHA as the Yellowbush mine of **Yellow Bush Mining LLC**. The mine produced 443,552 tons in 2011, down sharply from 735,167 tons in all of 2010, according to MSHA data.

ABOUT THE AUTHOR

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