Coal has declined in importance to the rail industry over the past five years.

What will be the future role of coal and rail rates for coal?

Answer: Different, very different
PRB Growth was US Coal Growth
Gas Taking Market Share from Coal

U.S. monthly net electric power generation, January 2007 - March 2013

percent share

coal
natural gas
nuclear
hydro
other renewables
other
What Happened?

- Cheap gas, tough environmental regulations and low power prices have virtually eliminated new US coal plant construction.
- Cheap gas, conservation, renewables and anemic economic growth have reduced rail shipments to existing units.
- High production costs, tougher mining regulations, installation of scrubbers, and low market prices have eviscerated the CAPP steam coal supply industry,
Base Load Plants are Becoming Intermediate Load
### Calculating the Rail Freight 'Headroom' for CAPP and ILB Coal to Compete with Gas Combined Cycle Power for CY '13

<table>
<thead>
<tr>
<th></th>
<th>Gas</th>
<th>CAPP Coal</th>
<th>ILB Coal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal ICAP 2Q-4Q '13</td>
<td>$/t</td>
<td>$66</td>
<td>$40</td>
</tr>
<tr>
<td>Fuel price</td>
<td>$/MMBtu</td>
<td>$4.10</td>
<td>$2.64</td>
</tr>
<tr>
<td>Transport</td>
<td>$/MMBtu</td>
<td>$0.30</td>
<td>$0.46</td>
</tr>
<tr>
<td>heat rate</td>
<td>MMBtu/MWh</td>
<td>7.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Fuel for Generation</td>
<td>$/MWH</td>
<td>31</td>
<td>31</td>
</tr>
<tr>
<td>Rail price to match gas</td>
<td>$/ton</td>
<td>$12</td>
<td>$33</td>
</tr>
</tbody>
</table>

Gas price May 7, '13 CME Group HH forwards for Jun-Dec '13
Coal price ICAP May 7, 2013. Heat rates are generic.
Illinois Basin Production Increase

EIA Reference Case AEO 2013
PRB Rail Rates: Still at High Levels

Rail Rates for Shipments of PRB Coal to Competitively-Served Destinations on BNSF or UP
(starting rates for new multi-year contracts, assuming railcars are provided by the shipper)

Sources: Estimates by Fieldston Co., Inc., PA Consulting Group, Pace Global Energy Services, and Hellerworx.
For US Coal - Exports Are the Target

BP Energy Outlook 2030 published Jan 2012
Rail Routes for PRB Coal Exports via Ports in the Pacific Northwest
Conclusions

Domestic utility coal will become a smaller and more uncertain part of the railroads’ commodity mix than it has been in the past due to environmental regs and competition from natural gas.

1. An ability to flexibly burn and transport ILB coal will be critical. (NAPP and PRB largely done)

2. More flexible approaches to contracting for coal and rail may develop. Would use price and term flexibility to achieve more volume predictability.