Arch Coal's 2Q earnings expected to rise

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Arch Coal Inc., one of the world's biggest coal producers, is expected to report earnings for the second quarter before the market opens on Friday. The following is a summary of key developments and analyst opinion related to the period.

WHAT TO WATCH FOR: St. Louis-based Arch, whose $1.8 million first-quarter loss reflected charges tied to its purchase of the Jacobs Ranch coal mine in Wyoming and soft demand for coal used by U.S. power plants, is likely to highlight its production of thermal coal used in electrical generation. That's the bulk of the miner's business.

Arch, which fuels about 8 percent of all U.S. electrical generation, increasingly has looked to mine higher-margin metallurgical or coking coal - a variety used in steelmaking and in big demand by China and other Asian countries - as it waits for the market for thermal coal to regain its footing.

Arch's second-quarter earnings may reflect fallout from some production disruptions, including two suspensions of mining since April at its underground Dugout Mine in Utah - the state's fourth-biggest coal mine - to deal with rising levels of deadly carbon monoxide from smoldering fires. Dugout produced 200,000 tons of coal in this year's first three months, or about 2 percent of Arch's total production.

In April, an Arch Coal subsidiary sued the Environmental Protection Agency in federal court over the planned veto of a water quality permit for West Virginia's largest surface mine. Arch argued that the EPA doesn't have the authority to revoke a Clean Water Act permit once it has been issued; the permit for the Spruce No. 1 mine was issued to Arch's Mingo Logan Coal three years ago.

The EPA has insisted that the mountaintop removal operation would cause irreversible damage to the environment. The EPA says the project would affect nearly 2,300 acres of forest and that valley fills would bury 7 miles of intermittent streams and harm water quality.

The agency has started scrutinizing Appalachian surface mine permits under the Obama administration - a change pushed by environmentalists in hopes of eliminating mountaintop removal coal mining.

Coal companies consider the practice highly efficient while opponents counter it devastates the ecosystem.

Montana's state Land Board voted in March to lease 572 million tons of coal reserves near the Wyoming border to Arch for $86 million and future royalties. But four environmental groups quickly filed suit, pressing that the board did not adequately consider the environmental consequences of the mine or of burning the

coal.

WHY IT MATTERS: Analysts have been closely watching the recent performance of coal-mining companies to gauge the strength of the rebounding manufacturing economy. They also want to hear what mining companies have to say about tougher regulatory scrutiny, which eventually could affect earnings.

Arch also may weigh in on earlier expectations that the April blast that killed 29 miners at Massey Energy's Upper Big Branch mine in West Virginia could bring tighter safety monitoring, perhaps ultimately lowering coal production.

The Obama administration is proposing a new rule to tighten restrictions on pollution from coal-burning power plants in the eastern half of the country, a key step in cutting smog-causing emissions. Any climate legislation in the U.S. will certainly target coal producers and industries that burn the fuel. Utilities already are switching many power plants over to natural gas, which burns with fewer harmful emissions.

WHAT'S EXPECTED: Analysts polled by Thomson Reuters expect, on average, that Arch will earn 25 cents per share on revenue of $765.4 million.

LAST YEAR'S QUARTER: In the April-through-June period last year, Arch posted a loss of 11 cents a share - nearly twice the per-share loss Wall Street expected - on revenue of $554.6 million, citing a 20 percent drop in sales and production cutbacks. Arch said coal markets were weighed down by huge stockpiles of coal, while weak prices for natural gas were bottoming out and poised for a rebound.

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