Coal Mine Owners Battle over Production

MATT VOLZ,Associated Press

HELENA, Mont. (AP) — The two owners of a coal mine in southeastern Montana are involved in a legal battle over whether to close the mine or expand production with an eye on Asian markets.

A subsidiary of Cloud Peak Energy Inc. is suing Ambre Energy Limited, its partner in the Decker mine, over what it claims is a breach of contract for planning to expand production outside of the formal process established by company's joint management committee.

Cloud Peak subsidiary Western Minerals LLC wants Ambre subsidiary KCP Inc. removed as the mine's manager.

Ambre denies Western Minerals' claims and said it will vigorously defend its management. The Australian-based company says that Cloud Peak is insisting on closing the Decker mine because Cloud Peak owns a competing coal mine where production has been increasing.

Coal production at the Decker mine has decreased from 7 million tons in 2007 to 3 million tons last year, with the mine reporting a net loss of $21.1 million last year and an $11.9 million loss expected this year.

The mine's current plan calls for an end to all production when its last customer contract ends in 2013, according to the July 9 lawsuit filed by Western Minerals.

Ambre knew about this plan when it bought its 50 percent stake and took over management of Decker Coal Co. last year, but the company and its subsidiaries have been acting outside of its joint venture agreement to position itself for an expansion of Decker coal production, the lawsuit claims.

"Stated simply, the Ambre Entities seek to unilaterally force a significant change in the long-standing direction of the Decker Mine and its associated business and financial risks by redeveloping and expanding the mine for planned future Asian exports," the lawsuit reads.

Western Minerals says Ambre signed contracts to supply coal to South Korea and that it plans to fulfill those contracts by reselling coal that it buys from its subsidiary at the Decker mine.

That arrangement to re-sell Decker coal at a higher price would increase profits to Ambre but not Western Minerals, which "constitutes impermissible self-dealing," the lawsuit claims.

Ambre spokesman Brian Gard said the company has entered into tentative

agreements with some Asian buyers of coal, but that is through its part ownership in the Morrow Pacific Project, which is separate from the Decker mine's operations.

If the permits are approved for that coal-shipping shipping project through Oregon, then Ambre would seek to purchase coal from western U.S. suppliers, Gard said. That would include a proposal to the Decker joint management committee.

Ambre implied in a statement that Cloud Peak wants to shut down the Decker mine so end competition for its nearby Spring Creek mine, though Gard declined to explicitly say that is the case.

"I'm going to have to let you connect the dots because I don't have any direct knowledge of what their business strategy is," Gard said. "That would appear to be the case absent some other explanation."

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