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Earnings Call

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Call Participants

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Rebecca Palumbo
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ATTENDEES

Unknown Attendee

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Presentation

Operator

Hello, everyone, and welcome to the Hallador Energy Third Quarter 2023 Earnings Call. My name is Emily, and I'll be coordinating your call today. [Operator Instructions]

I will now turn the call over to our host, Rebecca Palumbo. Please go ahead.

Rebecca Palumbo
Director of Investor Relations

Thank you, Emily, and thank you, everybody, for joining us today. Yesterday afternoon, we released our third quarter 2023 financial and operating results on Form 10-Q that is now posted on our website.

With me today on this call is Brent Bilsland, our President and CEO; and Larry Martin, our CFO. After the prepared remarks, we will open up the call to your questions.

Before we begin, please note that the discussion today may contain certain forward-looking statements that are statements related to the future, not past events. In this context, forward-looking statements often address our expected future business and financial performance. While these forward-looking statements are based on information currently available to us, if one or more of these risks and uncertainties materialize or if our assumptions prove incorrect, actual results may vary materially from those we projected or expected. For example, our estimates of mining costs, future sales, legislation or regulations.

In providing these remarks, we have no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, that may be required by law. For a discussion of those risks and uncertainties that may affect our future results, please review the risk factors described from time to time in the reports we file with the SEC.

As a reminder, this call is being recorded. In addition, we will have an archived webcast of this earnings call on our website. We encourage you to ask questions during the Q&A, and if you are on the webcast and would like to ask a question, you will need to dial in to the conference line. That toll-free number is 1 (833)-470-1428, access code 224373.

And with that, I'll turn the call over to Larry.

Lawrence D. Martin
CFO, EVP, President of Sunrise Coal & Corporate Secretary

Thank you, Becky, and good afternoon, everyone. Before I begin, I want to define adjusted EBITDA, which we define as operating cash flow less the effects of certain subsidiary and equity method investments, plus bank interest, less the effects of working capital changes, plus cash paid on asset retirement obligation, reclamation, plus other amortization.

For the quarter, Hallador incurred net income of $16.1 million, which was $0.49 a basic earning per share or $0.44 per diluted earnings per share. For the year, net income was $55 million, $1.66 earnings per share, $1.52 diluted earnings per share. We had adjusted EBITDA for the quarter of $35.9 million and, for the year, $105.2 million.

We decreased bank debt by $12.5 million for the quarter, $23.5 million for the year. Our funded bank debt as of September 30 was $61.8 million. We had letters of credit totaling $11.2 million. And our net funded bank debt was $59.2 million, which is funded -- or bank debt less cash.

Our leverage ratio, which is defined as debt to adjusted EBITDA, was 7.1x at September 30. Did I say 7-point -- 0.71x for the quarter.

I will now turn the call over to Brent to review the quarter and beyond.

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Brent K. Bilsland
President, CEO & Chairman

Thank you, Larry. First, I'd like to thank the Hallador team for their hard work and dedication on creating another successful quarter. As I've highlighted in our previous quarters, our goals of increasing profitability, increasing company liquidity and reducing balance sheet leverage remain paramount to how we operate as a company. This quarter's results show our continued progress towards these goals.

Our net income of $16.1 million for the quarter helped build on our record net income of $55 million for the first 9 months. And our continued record operating cash flow of $79.5 million over the 9-month period has allowed us to invest $48.7 million in capital expenditures to improve our efficiency and reliability at both our mines and our power plant.

We made continued progress on our goal of improving our balance sheet by repaying $23.5 million of debt during the first 9 months of the year, $12.5 million of which was during the third quarter. This further reduced our leverage, as Larry said, to 0.71x, while we increased liquidity to $66.4 million as of September 30.

On October 2, we successfully amended our credit facility with PNC Bank, which we accounted for as a debt extinguishment. This amendment is important as it extends the maturity of our credit facility into 2026.

During the third quarter, high coal sales prices, coupled with large coal shipment volumes, led to record coal revenue. Our well-contracted sales book supported our revenue growth despite operational challenges increasing our cost per ton during the quarter. We chose to relocate 57% of our coal units of production during the third quarter and into October to better -- to obtain better geologic conditions. This led to higher cost and decreased production during this time frame, but is resulting in overall production improvements following the moves, which we expect to continue.

During the quarter, we shipped 2.1 million tons of coal at an average price of $56.43 before intercompany eliminations. We produced 1.6 million tons in the quarter at $46.54 per ton before eliminations. Leading to margins of $18.89 per ton during the third quarter before eliminations. We expect an average price of $54.30 per ton on the remaining tons to be shipped this year.

On the power side of the business, intercompany coal sales from our Coal division to our Power Plant division, increased the average variable cost per megawatt hour to $40.03 per megawatt hour, an increase of $9.98 per megawatt hour over the prior quarter before eliminations. We set the price of coal we sell to ourselves based on third-party market indicators that we review from time to time. Cost per megawatt hour were $23.49 on a consolidated basis. As the marketing price fluctuates, we expect to see these types of variances in each side of the business. During the quarter, we produced 1.3 million megawatt hours.

We are excited about the progress we are making in our forward power sales capacity book. During the quarter, and in the time leading up to this release, our Power division was successful in securing $325 million of energy and capacity sales across multiple years, as reported in our Form 10-Q filed last night. This morning, we received a signed agreement for an additional $41 million of capacity and revenue over the years '24, '25 and '26, bringing this number of total sales up to $366 million. These sales are important as they create a profitable foundation for our Power division over the next 5 years, with sufficient energy sales at -- or excuse me, with significant energy sales at $56 per megawatt hour, and capacity prices approaching $220 per megawatt day.

Now we get a lot of questions concerning how an investor should think about Hallador now that we have added a power division. To add clarity, we included a detailed section -- we included a lot of detail on Section 3 of the overview of the MD&A outlining our sales of coal, power and capacity through 2028.

At a high level, I think about our business as such. We produce 7 million tons of coal annually. Just over 4 million tons is sold to outside customers and almost 3 million tons is sold to our Power division, Hallador Power. The reference table will show that, over the next 5 years, 54% of the coal that we plan to sell to outside parties is already committed to those parties and 73% of these commitments are priced at an average price of $52.60 per ton. Our year-to-date cost per ton to produce coal was $43.25.

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The other 3 million tons assume that we will annually produce 6 million-megawatt hours at our power plant. Now there are rules about how we price this coal to ourselves and the accounting around this can be confusing to follow due to the internal eliminations. However, the price that is chosen for the coal that we sell ourselves only determines how much profit or loss is allocated to our Coal division or our Power division. Ultimately, what matters is how much profit is made at Hallador based on our cost structure.

During the third quarter, our consolidated variable costs at the plant was $23.49 per megawatt hour. As stated in previous quarters, we use our capacity sales to cover the majority of our fixed costs at the plant. We have sold -- and we expect, with the capacity prices that we're seeing, that to continue.

We have sold approximately 27% of our future power through 2025 at $34 per megawatt hour, roughly a $10 margin based upon that cost structure. But in this past quarter, we have sold 3.3 million megawatt hours for the '26, '27, '28 years at $56 per megawatt hour, which is roughly $32 per megawatt hour profit margins based on today's cost structures. These sales have us very excited about the profit potential for Hallador Power.

Now that doesn't mean there won't be operational challenge such as the one we experienced on October 2 when we had an unplanned transformer outage in one of the generators at the power plant. The transformer has since been replaced, and the event will cause us to miss a net 2 to 3 weeks of output from 1 of those 2 units.

I want to reemphasize, I am very excited about the future of the company, especially as I look to the power sales through 2028, what we are seeing through increased pricing from our recent power PPAs, coupled with strong capacity demand and pricing. With a solid book of business that we are now showing and the steady supply of coal from our mines, I am incredibly pleased with the progress that we are making towards leveraging the opportunities that drove our decision to acquire the power plant. As I said at the start of my comments, I'm encouraged by the quarterly results and the continued progression of Hallador as a company.

And with that, I will open up the call for questions.

Lawrence D. Martin
CFO, EVP, President of Sunrise Coal & Corporate Secretary

Before we go to questions, I want to clarify one sentence here. Our shipments were 2.1 million at $65.43 for the quarter, for an $18.89 per ton margin.

Brent K. Bilsland
President, CEO & Chairman
Thank you, Larry.

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Question and Answer

Operator

[Operator Instructions] Our first question today comes from the line of Kevin Tracey with Oberon Asset Management.

Kevin Tracey
Oberon Asset Management, LLC

Great. The first one is just to clarify what I thought you just heard you say about the outage at Merom. So in the 10-Q, there's a note where it says the unit isn't expected to be back into service for the second half of December. But I thought I heard you say that the outage was only 2 to 3 weeks. So I guess, was it -- are we kind of missing 2.5 months or 2 to 3 weeks of this unit?

Brent K. Bilsland
President, CEO & Chairman

Yes. Let me clarify that. So the unit was already scheduled to get on a scheduled outage from November 1 to December 27. That's something that we schedule with MISO 6 to 9 months in advance, and we bring in outside contractors to do routine maintenance on the unit. So that was planned.

The unit went down basically a month early due to the transformer. And so we have sped up part of the outage work to begin some of that work that we could do in October, which means, instead of the unit coming back online its December 27, it will probably come back online a week or 2 earlier than it was previously scheduled. So net-net, we're going to lose this unit -- 1 of the 2 units for 2 to 3 weeks longer than was expected and planned for.

Lawrence D. Martin
CFO, EVP, President of Sunrise Coal & Corporate Secretary

Cross your fingers, the power prices are higher in December.

Kevin Tracey
Oberon Asset Management, LLC

Okay. And going forward, will there be -- do you expect any impact on MISO's accreditation of the [plan] for purposes of future capacity revenues? Or are you hoping that won't be material?

Brent K. Bilsland
President, CEO & Chairman

Yes. I think every time you have a forced outage -- so accreditation is a rolling 3 months -- a 3-year process, right? And so they're looking at your performance history during that time frame. So things that help your capacity rating are -- we acquired a plant that was scheduled for shutdown. So some of that maintenance was let go. And we are spending additional monies this year and next to kind of get the plant back in what I would call tiptop shape.

And so where that helps you on accreditation is we're seeing higher output numbers than when we took over the plant a little over a year ago, right? So as you get newer and better and refurbished equipment on the plant, you're able to achieve higher performance. That's to the good side. The bad side is, every time you have an unscheduled outage such as we had with the transformer, that counts against you in accreditation.

And then I'd say, thirdly, we still see MISO making tweaks and adjustments to their accreditation process. They've not finalized those rules, and so we can't ever be 100% certain what comes out of that. Do we get more accreditation? Do we get less accreditation? It's always hard to say. So all we can do, and what we have done is, as of our last accreditation, which was eight hundred and -- I mean it's on a seasonal basis, but I think on average, our accreditation was 860 megawatts. That's what we're basing our numbers on.

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So when we show you, hey, here's how much capacity we've sold as a percentage of the plant, it's based on an assumption that our accreditation is 860. But that number could go up or down based on our next accreditation from MISO.

Lawrence D. Martin
CFO, EVP, President of Sunrise Coal & Corporate Secretary

And I want to emphasize on one thing Brent talked about. Being down also depends on when. If you are down in a low demand period, it doesn't count against you as much as if you were down during a high demand, say, minus even 20 degrees or something like that in the winter when there's a lot of demand for electricity. So us being down in October in a mild season may not count as much against us as -- and we may get more upside when we come back on in December. That's total speculation, but it is...

Brent K. Bilsland
President, CEO & Chairman

Odds are we're going to have colder weather in December than we had in October. Power prices theoretically would be higher. So it may not be as -- we may be trading 4 mild weather weeks for 2 cold weather weeks. We just don't know and we won't know until we get there.

Kevin Tracey
Oberon Asset Management, LLC

Understood. Okay. And then, so with these power sales agreements you've entered in. So you've sold about 1/4 of your planned generation for the next several years. Can you talk a bit more about how high you want to go in terms of selling power forward as a percentage of your expectation? And then how are you managing the risks there, or if the plant were to have an unplanned outage and you've agreed to supply power at certain prices, if you find yourself [along] the power market? So how are you kind of managing risks when you're thinking about entering those agreements? And if you could touch on how high you're hoping to go in terms of forward sales.

Brent K. Bilsland
President, CEO & Chairman

Yes, good question. So far to date, everything that we have sold on the power side is plant or unit contingent, meaning that we sold the power, and if we fail to perform, we do not have to go out and buy that power. We don't have to cover, right? We just simply are not shipping those electrons to the customer and they either have to do without it or they have to go buy them elsewhere. But that is not on our accounts.

So I think as excited as we are about our sales, on a risk-adjusted basis, we're extremely excited about that.

I'm going to look to see what opportunities are for -- these are bilateral agreements. These are not exchange hedges. On an exchange hedge, as a firm power sale, we would have to cover in that scenario. And so we want to make sure that we have a lot of liquidity if we do that type of hedging.

And so part of our process and what we've talked about here is we want to make sure we get our balance sheet as healthy as possible, get our liquidity as high as possible, and then we'll look to the market to see if there is hedges that we want to -- additional hedges that we'd like to layer in.

Kevin Tracey
Oberon Asset Management, LLC

Okay. And then on the mining cost per -- sorry, go ahead.

Brent K. Bilsland
President, CEO & Chairman

Yes. I was just going to say, we certainly prefer the bilateral agreements on a risk-adjusted basis.

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Kevin Tracey
Oberon Asset Management, LLC

Got it. Okay. And then on the mining cost per ton, I think heading into this year, the hope was that we would see an improvement over 2022's $37 per ton. We've obviously seen costs rise quite a bit from there. Can you talk about sort of what went wrong versus your expectations? Was it just in general inflation or an issue with the geology? And you made some comments about improvements you're seeing from some changes you're making. Can you help set expectations on where you think your mining cost per ton will be for 2024?

Brent K. Bilsland
President, CEO & Chairman

So on the production outlook, it's pretty -- we have 7 units -- 7 individual production units underground. I think it's pretty typical in any given quarter for 1 or 2 of those to be struggling. What was unusual about this quarter is we had 4 units struggling. And we -- sometimes that catches you at a time that's a little out of sequence to be moving. So you fight that for a little while. And then finally, ultimately, you come to the decision of we need to shut the unit down and move it. And there's just lost time in production when you do that, particularly out of sequence like we did this quarter and into October.

So, very unusual to move 4 units at any given quarter, but that's what we did. And that's -- ultimately had an outsized factor on why our costs were the highest they've ever been in any quarter in the history of the company. So, disappointed by that. All I can say is we've moved those units, and I'm pleased with the productivity that I'm seeing to date out of those units. So we expect our cost structure to be better in the future.

Kevin Tracey
Oberon Asset Management, LLC

Okay. Are you willing to put out a number on where you think the cost structure will be. Can we get into the 30s again?

Brent K. Bilsland
President, CEO & Chairman

I think that I think we will -- we have seen inflation. So I think probably in 2024 -- gosh, some of that is going to depend on what the production levels are at each mine. But I think you'll see us back into the low 40s, upper 30s.

Kevin Tracey
Oberon Asset Management, LLC

Okay. And then on the CapEx, so your fourth quarter guidance implies that the full year CapEx will come in about $10 million than your original budget. And it looks like all of that, I guess, all of that delta from your original guide is coming from the Coal business. Can you talk about where you think CapEx will end up kind of on a normal basis for the coal business going forward? And then do you have any update on the [affluent] project at Merom and kind of where you're thinking the CapEx budget is going to look like next year?

Lawrence D. Martin
CFO, EVP, President of Sunrise Coal & Corporate Secretary

I'll handle the coal part, and then Brent can answer the affluent question. But for the coal plant, we just had some -- with our moving things around the 57% we moved, we had some mine development we had to do. And then we had some equipment that came on -- that's going to come on at the end of the year that we thought was going to be in the next year. So that's our $10 million difference.

Going forward, I think our plan is $35 million for CapEx for the coal plant. Do you want to talk about ELG.

Brent K. Bilsland
President, CEO & Chairman

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Yes, on ELG. So the EPA has proposed a new rule, that has yet to go final. So we are waiting to see where they ultimately end up. And we expect them to finalize that rule in this coming spring. And so that ultimately will decide what we do and the exact timing and compliance dates to meet that rule. Our Board has approved $45 million to spend on that. We still feel comfortable that, that will meet where we think the EPA is heading with that rule and their most stringent standard. But we'll wait to see where they end up on the final rule before we comply with that.

So that is delaying the expenditure of some of those dollars until we know exactly what the EPA wants.

Kevin Tracey
Oberon Asset Management, LLC

Okay. And then last quick one here. On the last call, your latest update on your target of getting to basically 0 net debt was the second quarter of next year. Is there any update to that guidance?

Brent K. Bilsland
President, CEO & Chairman

Yes. I think the higher cost that we experienced this quarter is going to push that out at least a quarter and into the third quarter of 2024.

Operator

Our next question comes from Kevin Pounds with Castlebury Advisory.

Kenneth Pounds

Kenneth. I think you mentioned in the last call that you were looking for -- you might benefit from hot summer or surges in demand in the summer. Did you experience that for the power plant?

Brent K. Bilsland
President, CEO & Chairman

No, we really saw a pretty mild summer. I think we had 2 weeks of hot weather. So we saw good pricing during that time frame. But the balance was somewhere -- from a power pricing perspective was fairly anemic. So we're still kind of waiting for more colder days or hotter days, but we don't like 65-degree days from a business perspective.

Kenneth Pounds

There's been -- on the West Coast here, there's been refineries closing. Are there some other older power plants that are in your area that might be closing that would tighten up the market? Or have you seen anything like that?

Brent K. Bilsland
President, CEO & Chairman

Yes. We did just have another power plant that closed last week in MISO Zone 6, which is the zone that we're in. We think -- the trend continues to be -- people are taking generation out of MISO that has an on switch and replacing it with generators that do not have an on switch. And as long as that trend continues, that should increase the value of capacity and it's going to create higher highs and lower lows in the power markets, right? Because renewables tend to give you electrons not necessarily when you need them.

And so if we can be a generator that can provide electrons when they're needed, we think that we're going to see some days where there's some pretty extreme high pricing. And when we have an open position such as we have today, a relatively open position, then it affords us those opportunities to take advantage of that. So we'll see what the weather brings.

And we're continuing today to go to work to try to sell more power through bilateral agreements. And I think this quarter was a solid performance in that with, I guess, if you include the contract we [dragged]

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in the door today, it was $366 million of power and capacity sales, we keep having quarters like that, I think our investors are going to be very happy.

Kenneth Pounds

Yes. Sure you definitely improved earnings visibility. And I know you've made similar comments before, which sounds impressive. We've had a lot of reports lately about these renewable projects being too expensive and not delivering certainly the margins that people had wanted. Finally, you said you had 4 of the 7 units that struggled. Are some of those units may be not going to be too high cost, if we keep seeing cost creep all over the country, not just you guys, obviously, with inflation and fuel and so forth?

Brent K. Bilsland
President, CEO & Chairman

Yes, I thought it was interesting, there's been several mining companies that have reported before us, and it seemed like everybody had a tough operational third quarter. I'm not really sure why that is. I don't know if it was something about the -- a lot of humidity that came out of the mines. Has it cooled down? Or if it was just coincidence.

But certainly, everybody has seen cost pressure due to inflation, but I really think the majority of what we had going on in this particular quarter and into October was geologic and specific to our mines. And I think that we have solved that problem. And I'm sorry that the quarter wasn't better from an operational cost point of view, but I hope -- I think, we've fixed the problem.

Kenneth Pounds

Great. Keep up the good work.

Operator

Our next question comes from Jason Lustig with J. Goldman.

Jason Lustig
J. Goldman & Co., L.P.

Just wanted to say thank you for increasing the disclosure in the contract table, really helps, I think as another caller said, just better understand the long-term economics of the company. So, appreciate that. As I've thought more about this table, I think we're getting a sense for what the future revenues of the company can look like, the 3 different revenue streams. We have a reasonable sense of the coal costs per ton, the fixed costs we've talked about in the past at the plant.

One thing that I'm struggling a lot with and would appreciate trying to better understand is the variable costs per megawatt hour excluding fuel at the plant and how we should think about that over time.

Brent K. Bilsland
President, CEO & Chairman

Well, look, I mean, fuel is the majority of it. I think we've come out and said that during the quarter on a consolidated basis, variable costs, including fuel and nonfuel, was $23.50 per megawatt hour. So I don't think at this time we plan to break out what our nonfuel expense is. Quite frankly, I think we've got enough numbers that -- our goal was to not confuse everyone. Our goal was to create as much clarity as possible.

And that's why we spent a lot of time on that table I referenced, in an effort to try to get everyone to understand, right, because it gets very confusing when you start pricing coal to yourself and you have these company -- intercompany eliminations, which is all GAAP, it's all the way it's supposed to be. But we're trying to clarify that, that, hey, at the bottom line, there's extreme -- it's just a great earnings potential at the power plant.

And we hope everybody gets as excited about that as we are, particularly when our most recent pricing particularly on a risk-free basis, since it's unit contingent, it is quite profitable. And so anyhow, I

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appreciate your compliments on that. We're probably not on this call going to get into what our nonfuel costs are at this time.

Jason Lustig
J. Goldman & Co., L.P.

Okay. Okay. I appreciate that. If I flip to the coal operations segment of the 10-Q, I see this as $37 million in sales to the Merom plant that are eliminated in consolidation. And I would love to try and triangulate and better understand how that -- how I can reconcile that number with the $40.03 per megawatt hour cost at -- a variable cost at Merom and the $22.49 consolidated number. And maybe that can get us most of the way there for those who are on the outside and still confused.

Brent K. Bilsland
President, CEO & Chairman

I'm not 100% sure I understand that question.

Jason Lustig
J. Goldman & Co., L.P.

I'm trying to just -- we can do our own math, I guess, on the outside to try and allay any confusion. But I am trying to figure out how much -- I guess, what was the cost or the price of the coal that was transferred and what is the right number? Is it 0.5 million tons, which I think I saw somewhere else in the 10-Q. Is there some other number that I should be using for this quarter? I can...

Lawrence D. Martin
CFO, EVP, President of Sunrise Coal & Corporate Secretary

So everything -- and I'll give you -- I mean I'm not -- you guys can do the math, but here's the numbers. We sold coal to ourselves for $75, which is in the Q. So we have to eliminate that. And then our costs were 40-some -- I can't remember off the top of my head where they're at in the Q, but then our costs for the quarter were $46 I think. So that has to be -- that profit has to be eliminated as you sell the coal to yourself.

Now we did burn, but it's not just what we sold in sales, it's what we actually burned. There's some sitting in inventory that got eliminated as well.

Jason Lustig
J. Goldman & Co., L.P.

Okay. All right. I think that gets me most of the way there.

Operator

[Operator Instructions] Our next question comes from Tom Kerr with Zacks Investment Research.

Thomas Kerr
Zacks Small-Cap Research

I think most of my questions were just covered. A couple of quick ones. As you guys continue to generate more free cash flow, refresh my memory if there's any restrictions on returning capital to shareholders through dividend, share buybacks, et cetera.

Brent K. Bilsland
President, CEO & Chairman

Now at our current leverage ratio, we have no restrictions.

Thomas Kerr
Zacks Small-Cap Research

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Okay. Great. And then lastly, you guys have indicated in the past that you may be looking for other power plants for acquisitions to add to the -- that side of the business. Is that still good? Is that still a plan or any opportunities out there you can mention?

Brent K. Bilsland
President, CEO & Chairman

Well, nothing we can list specifically by name. We are always looking, and we think there's -- Hallador is in a unique spot to potentially take advantage of those opportunities. So certainly, we are looking.

Operator

Our next question comes from Lucas Pipes with B. Riley Securities.

Lucas Nathaniel Pipes
B. Riley Securities, Inc., Research Division

Just a few quick ones for me, First, Brent, in terms of struggling on the coal side, what exactly is meant by that? What happened?

Brent K. Bilsland
President, CEO & Chairman

I think we just -- you have units that run into bad roof. It could be could be that you've got presence of water or sandstone coming in close contact or close location to the coal. And when we get that -- sometimes you can fight through that and get to the other side of it. And other times, you have to back up, move over. Sometimes you back up, move over, back up, move over a second time. And then there comes a point where you just say, you know what, I'm going to move to a different portion of the mine and tackle this from a different angle or a different point of view.

Moving over and attacking it again, that's pretty common. That happens. Major moves to a different area, that's pretty uncommon, and particularly for 4 units in 1 particular quarter. So I think we want to say that it was significant. It was unusual. And we think that that's behind us.

Lucas Nathaniel Pipes
B. Riley Securities, Inc., Research Division

Were all those 4 units working in close proximity when they encountered these difficulties?

Brent K. Bilsland
President, CEO & Chairman

No.

Lucas Nathaniel Pipes
B. Riley Securities, Inc., Research Division

And the areas that you moved out of, are you going to move back towards them in due course? Or would you say, for the foreseeable future, it was just too tough, you don't want to go back there?

Brent K. Bilsland
President, CEO & Chairman

Yes. I mean sometimes you just move around to the other side of it, right? There's -- there could be a good area of coal that can be a year or 2 of good mining and you just need to access that from a different location. So it's not -- I don't want you to lead you to believe that we're abandoning large portions of our reserve. That's not the case at all. We are just attacking it from a different point of view.

Lucas Nathaniel Pipes
B. Riley Securities, Inc., Research Division

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Got it. Okay. That's helpful. And then I want to go back to your comments earlier on hedging versus bilateral agreements. And it sounded like there are certain advantages on these bilateral agreements. Does it come down to force majeure provisions? Is that really the difference?

Brent K. Bilsland
President, CEO & Chairman

No. I mean it's just -- it's pretty common to have either firm sales or unit contingent sales and a bilateral agreement with a particular customer is a very bespoke agreement. And it can have -- I would almost argue that no 2 agreements like that are exactly the same. Whereas, hey, if I'm just jumping on ice and buying or selling a power contract, that's a very cookie-cutter, fixed agreement, it's different. And it takes a lot more risk, right? You can get a margin call if you're on ice. I can't get a margin call for my customers. We have to have contingent power.

So from a risk perspective, I think we've put ourselves in a really good -- what we say is a good foundation of business. I don't know that we can sell all of our power under that particular format, so we'll see. All we're saying is that we had great success in this particular quarter, and we've got a great team that's out trying to get in situations that's both good for our customer and good for ourselves.

Lawrence D. Martin
CFO, EVP, President of Sunrise Coal & Corporate Secretary

And Lucas, to expand on that a little bit. Think of it as -- I mean, we say unit contingent, but we have guaranteed a certain percentage for the year. So we -- so if the unit goes down, we don't have to deliver on a unit contingent basis. And power could be very high that day and we don't get penalized. But then some of that, depending on the percentage, we may make up later at our contracted price. So you said force majeure, it's not really force majeure, but kind of.

Lucas Nathaniel Pipes
B. Riley Securities, Inc., Research Division

Got it. So the kind of the legal term would be there kind of, I think you said, unit contingent, right?

Lawrence D. Martin
CFO, EVP, President of Sunrise Coal & Corporate Secretary

Correct.

Lucas Nathaniel Pipes
B. Riley Securities, Inc., Research Division

That's helpful. And then yes, I really appreciate the disclosures. A quick question there on Page 18 of the Q. Contracted power revenue, that line shows 2024 $98.05 million. That's pretty clear. The item immediately underneath it, what's -- how is that derived exactly? Can you walk me through that, the 43.34, the revenue per megawatt hour? I don't -- clearly doesn't assume the $6 million. So I kind of struggle a bit to back into that.

Lawrence D. Martin
CFO, EVP, President of Sunrise Coal & Corporate Secretary

78% of 6 million. So Lucas, that is the actual -- that's contract, what we have contracted for the year, which is 78% of [6 million].

Lucas Nathaniel Pipes
B. Riley Securities, Inc., Research Division

Got it. Okay. So it's not based on the 6 million, that's based on -- you make the assumption you're running at you said 78% of the 6 million?

Lawrence D. Martin
CFO, EVP, President of Sunrise Coal & Corporate Secretary

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Well, it's what we have -- we don't have 6 million contracted. We have 6 million we can provide. So the 98 million is what we have contracted.

Lucas Nathaniel Pipes
B. Riley Securities, Inc., Research Division

Yes.

Lawrence D. Martin
CFO, EVP, President of Sunrise Coal & Corporate Secretary

For total -- that's total capacity and energy.

Lucas Nathaniel Pipes
B. Riley Securities, Inc., Research Division

Correct. And the line underneath it, the $43.34 million, what...

Lawrence D. Martin
CFO, EVP, President of Sunrise Coal & Corporate Secretary

How much revenue we're -- how much revenue we're going to get on our contracted megawatts.

Lucas Nathaniel Pipes
B. Riley Securities, Inc., Research Division

But you have only 1.6 million contracted now?

Lawrence D. Martin
CFO, EVP, President of Sunrise Coal & Corporate Secretary

But that includes capacity and power.

Lucas Nathaniel Pipes
B. Riley Securities, Inc., Research Division

Got it. Okay.

Brent K. Bilsland
President, CEO & Chairman

I think what we're showing here is...

Lawrence D. Martin
CFO, EVP, President of Sunrise Coal & Corporate Secretary

[43.65] divided by 78% of 6 million, [9 32], plus $34.

Lucas Nathaniel Pipes
B. Riley Securities, Inc., Research Division

Yes, maybe we can take that off-line, but I appreciate it. I think I know where this is going. But maybe one quick follow-up. You have only 1.6 million of output contracted, right?

Lawrence D. Martin
CFO, EVP, President of Sunrise Coal & Corporate Secretary

Correct.

Lucas Nathaniel Pipes
B. Riley Securities, Inc., Research Division

And so I mean, the capacity payment, you can still -- you have capacity payments, but you can still generate revenue on top of that though.

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Lawrence D. Martin
CFO, EVP, President of Sunrise Coal & Corporate Secretary

Absolutely. So we have 4.4 million megawatt hours of power that we can still contract.

Lucas Nathaniel Pipes
B. Riley Securities, Inc., Research Division

Yes. Makes sense. Really appreciate all the color, and again, best of luck. Thank you.

Operator

Our next question comes from [Roger Zigler] who is a Private Investor.

Unknown Attendee

Congrats on a strong quarter despite some obstacle, guys. My question is, I've not had a chance to delve into the Section 3, you said it's related to power in general, this exciting new market. Am I reading the release just posted -- one of the tables that in 2024 you've got 27% of your power priced? Is that correct, from the basic -- the non-GAAP table that was provided in...

Lawrence D. Martin
CFO, EVP, President of Sunrise Coal & Corporate Secretary

At $34, yes.

Brent K. Bilsland
President, CEO & Chairman

Yes, that's correct.

Unknown Attendee

So you've got 83% left to, potentially, there'd be some windfall times in there, if possible, right? When you get some extremes either way, as you said, that's pretty exciting?

Brent K. Bilsland
President, CEO & Chairman

That would be 73%. So basically, what we're saying -- yes. We've got 27%, let's just call it fourth around that. We've got a fourth price and we've got another 2/3 or 3/4 that we're open to -- we bid into the market every day. And the prices can be high and prices can be low and prices can be so low that we take the unit offline. But we think we're heading into -- we're heading into winter. And that typically historically has been some of the better pricing. So we'll see what December, January and February bring.

Lawrence D. Martin
CFO, EVP, President of Sunrise Coal & Corporate Secretary

But also, we have of our capacity -- we have 78% of our capacity sold for next year, which if we sell 100% of our capacity, we think that will cover the majority of our fixed costs.

Unknown Attendee

And a real general question you may or may not be willing to answer, but kind of a basic high-level question. Is -- are you finding a very strong correlation to the nat gas market for power as it is with coal?

Brent K. Bilsland
President, CEO & Chairman

Yes. I mean there's a lot of gas generation in MISO. And so if gas prices are cheap, those units -- those gas units can produce cheap power, and we have to compete against that, to a certain point, because once load exceeds gas generation, then coal is going to compete against coal. Or if gas prices go high as they

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did last -- in 2022, then you'll see coal potentially dispatch in front of gas and gas will take the upper end of the market. But pricing today on gas is pretty cheap.

Unknown Attendee

Right. The coal-to-gas switching thing and vice versa, right, it's always in play, right? Sorry, one last question on this topic then, should -- one last question on this topic, perhaps. Should we -- regarding, again, the power market, are you mostly correlated to the Chicago hub, MISO hub, and even the nat gas in some way? Or is it more of -- like this summer with record heat throughout Texas or in the South for upwards of a month, were you able to capitalize on that this past summer? Or is it more of a regional, say -- through Chicago, should we think of it in those terms?

Brent K. Bilsland
President, CEO & Chairman

Yes, it's definitely more important what the weather is Indiana through Chicago. And the gas price is closest to us matters the most, which, in that case, Chicago Citygate is one marker that we look at for sure.

Unknown Attendee

You weathered a bad summer that way. Chicago was as mild as it's been forever, right? And we're right south of you [indiscernible], right? I mean I...

Brent K. Bilsland
President, CEO & Chairman

Well, I think, look, we are very encouraged in that where there's a lot of new industrial demand showing up in the Midwest. Europe has had basically an energy crisis since the Russian invasion of Ukraine. And that's causing a lot of re-onshoring industry. I was with politicians yesterday who, more than 1 said, look, Indiana has a great business climate, we're not sure if we have enough people, and we're not sure if we have enough power.

And so Hallador being long power likes to be in that scenario. We like where we're at. There's going to be some volatility to our earnings because we are -- we do have a large open power position, and that is subject to market movements.

That would be great. And there's a high end, there's a low end. But I think, by and large, on average, we'll do really, really well. That's why we like the base of business that we're putting under it with our forward contracted sales. And we're encouraged by the most recent pricing -- we're encouraged by the most recent pricing that we saw at $56 a megawatt hour for multiple years.

Operator

Those were all the questions we have for today. So I'll turn the call back to Brent for closing remarks.

Brent K. Bilsland
President, CEO & Chairman

Yes, I want to thank everyone for taking the time to dial in and having interest in Hallador. And we're excited, very excited, about the future and what the Power division is finally starting to show everyone its capabilities of. And we look forward to more exciting quarters to come. Thank you.

Operator
Thank you, everyone, for joining us today. This concludes our call, and you may now disconnect your lines.

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