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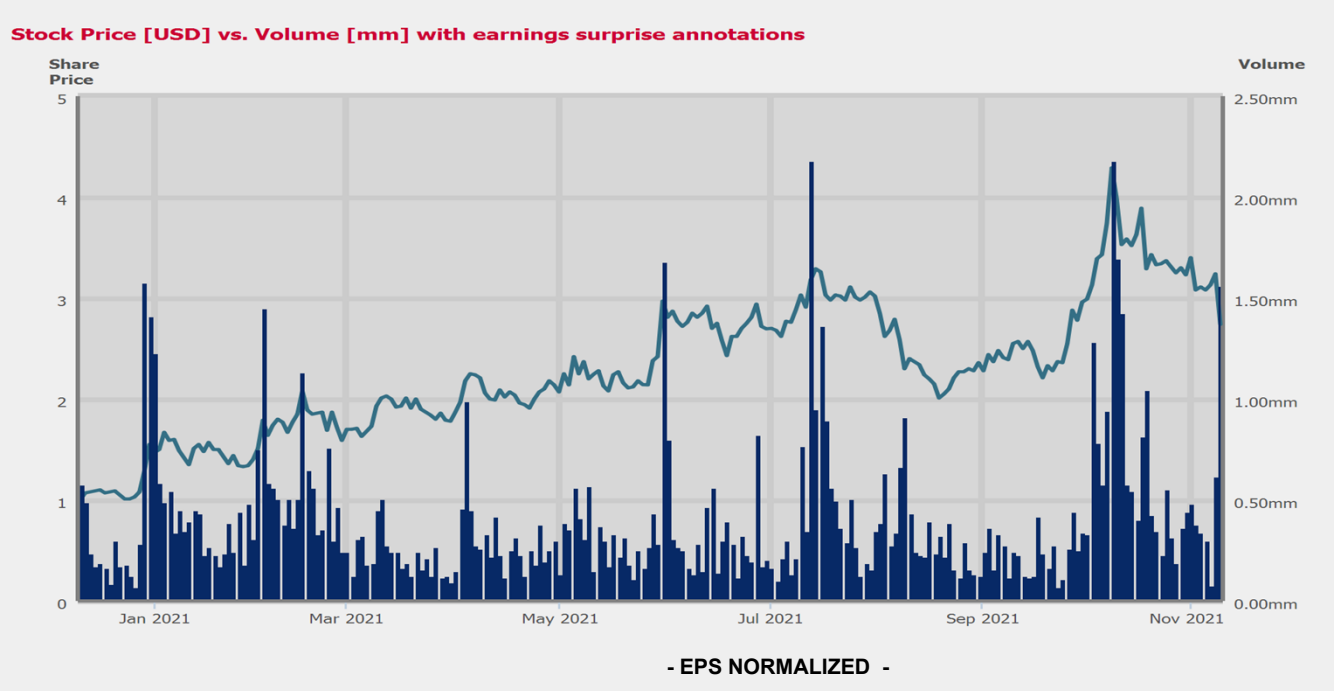
Hallador Energy Company NasdaqCM:HNRG FQ3 2021 Earnings Call Transcripts

Tuesday, November 09, 2021 7:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2021-			-FQ4 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.01	(0.07)	NM	0.01	(0.11)	NA
Revenue (mm)	70.70	79.82	12.90	70.70	243.70	NA

Currency: USD
Consensus as of Oct-04-2021 12:15 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2020	0.02	(0.15)	NM
FQ2 2021	0.06	(0.10)	NM
FQ3 2021	0.01	(0.07)	NM

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Call Participants

EXECUTIVES

Brent K. Bilsland
President, CEO & Chairman

Lawrence D. Martin
CFO & President of Sunrise Coal

Rebecca Palumbo
Director of Investor Relations

ANALYSTS

Andrew Love

John Moran

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

Unknown Analyst

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Presentation

Operator

Good afternoon, and welcome to the Hallador Energy Company Third Quarter 2021 Earnings Call. [Operator Instructions] Please note that this event is being recorded.

I'd like to turn the call over to Ms. Becky Palumbo of Investor Relations. Please, go ahead.

Rebecca Palumbo
Director of Investor Relations

Thank you, Nick. Hello, everyone. Thank you for taking the time to join us today. As a reminder, this event is being webcast live, and it will be available on our website later today. Yesterday afternoon, we released our third quarter 2021 financial and operating results on Form 10-Q, and issued a press release containing certain financial metrics. Both documents are posted on our website. Today, we will discuss financial results and our perspective on market conditions and outlook. Following the prepared remarks, we will open up the call for questions.

As a reminder, some of the remarks today may include forward-looking statements that are subject to a variety of risks, uncertainties and assumptions contained in our filings from time to time with the SEC. While these forward-looking statements are based on information currently available to us, if one or more of these risks or uncertainties materialize or if our underlying assumptions prove incorrect, actual results may vary materially from those we projected or expected. 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 required by law to do so.

With us today are Brent Bilsland, our President and CEO; and Larry Martin, our CFO. Now that we have the required preliminaries out of the way, Larry can start us off with the quarter's financial overview. Larry, the floor is yours.

Lawrence D. Martin
CFO & President of Sunrise Coal

Good afternoon, everyone. Before I begin, I'd like to get some definitions defined. We define free cash flow as net income plus deferred income taxes plus depreciation, depletion and amortization plus reclamation accretion, change in fair value of hedges and stock compensation, less maintenance CapEx and the effects of our equity method investments.

We define adjusted EBITDA as earnings before interest, taxes, depreciation and amortization plus stock compensation plus reclamation accretion and changes in fair value of hedges, less the effects of our equity method investments.

Hallador obtained net income of $8 million for the quarter or $0.26 a share, $4 million year-to-date for the 9 months or $0.13 a share. Our free cash flow for third quarter was $14.6 million and $26.4 million for the 9 months. Adjusted EBITDA was $20.5 million for the third quarter, $43.2 million for the 9 months. We paid down bank debt of $15.2 million for the quarter, $22.8 million for the year.

Our bank debt at 9/30 was $115 million, and our net debt at 9/30 was $110 million. Our debt-to-EBITDA leverage ratio was 2.29x, well within our covenants.

I'd like to now turn the call over to our Hallador CEO, Brent Bilsland.

Brent K. Bilsland
President, CEO & Chairman

Thank you, Larry. 2021 began slowly, but we'll finish very strong for Hallador. In the first half of the year, we shipped 2.6 million tons. And in the last half of the year, we anticipate shipping 3.6 million tons. This total shipments should come in around $6.2 million for 2021.

This improvement in pace, when looking at third quarter results year-over-year, our revenue increased by 22%, and our shipments increased by 29% in the third quarter. Shipments outpaced coal production in Q3, and coal inventory was reduced by $21 million. We expect to produce 5.7 million to 5.8 million tons in 2021. We are currently ramping up production to 7 million tons for '22 and '23. We have all the equipment we need. We just need more people.

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We added 94 employees in the month of October, and we are focusing on hiring another 110 in the next 2 to 4 months. Once complete, new employees will represent roughly 1/4 of our workforce. It will take a little time in training before this new workforce becomes efficient and cost decline.

Focusing on costs, Q3 production costs were elevated at $33.15 per ton, which is $2.95 over the prior quarter and $3.85 per ton over Q3 of 2020. The reasons for these increases are as follows: the operating phase at Oaktown 2 is now 10.5 miles away from the portal, requiring long underground travel times for our workforce. To combat this, we're finalizing the construction of an employee and supply hoist expected to be operational here actually today, which should reduce our labor expense substantially, particularly at Oaktown 2.

Additionally, we've been developing new underground lanes that have required a lot of additional support and labor. This work is necessary, but unfortunately, it's not very productive from a coal production standpoint. This work should also be completed this month.

We've experienced a few supply chain disruptions from our vendors, causing us to pay premium prices for some of our inputs. We expect these premiums to remain in 2021 and dissipate throughout 2022.

Our Ace in the Hole Mine is reaching the end of its reserve life and will mine out in November of '21. Our Ace is responsible for about 50% of our elevated cost structure during the quarter. We expect to open a new pit for Ace in the Hole in 2022.

We expect our production costs to stay elevated in Q4 and return to normal sometime in 2022 as our hoist becomes operational, supply disruptions dissipate, our workforce matures and our Ace in the Hole Mine transitions from an old reserve to a new reserve.

Focusing on cash flow and debt. Increased shipments and drawdown of our coal inventory created strong cash flows during the quarter, which we utilized to reduce debt. During Q3, we generated $24.1 million of operating cash flow and paid down our bank debt by $15.2 million.

I'd like to point out when you have 30 million shares -- 30.6 million shares, that's a significant pay down of debt. Our liquidity improved to $41.7 million in the quarter, and our leverage ratio decreased to 2.3x at the end of the period.

Looking at the markets. All markets have gotten substantially stronger as the year has gone on. Looking at gas, last year, the average price for NYMEX gas in 2020 was under $2. That's the lowest average in over 2 decades, just to tell you how tough 2020 was. And then basically, the first half of this year kind of became the big out or the recovery from that. And we saw NYMEX gas prices average $3 in April of '21, that's the 12-month forward curve. Then it jumped up in August to $3.70. In November here, it climbed up to $4.43. So a lot of the strength in this market is based on the price of natural gas, which prices really are quite strong through 2024.

Coal export prices have also increased rapidly. In April, we saw API4, which is the Asian market, Q3 2021 was $86. By October, that increased to $102 a ton. I think last night, it was up to $108. So we're seeing stronger prices in both Asia and Europe. We've outlined more of those costs in our Q.

But since the beginning of 2021, pricing for all forms of energy has dramatically increased, most importantly, natural gas prices have improved to a point where coal has gained large amounts of market share for electricity production in 2021 and beyond. There have been many headlines discussing higher coal prices around the world. But I think all you are interested in what does this mean for Hallador presently and long term.

As previously discussed, Hallador shareholders will see a strong finish to 2021. We're expecting higher prices in the fourth quarter, somewhere in the $2.70 to $3 range. Next year, we expect our margins to be slightly better than 2021, but with shipments 13% to 15% higher at roughly 7 million tons. In 2023, we believe we'll maintain sales at 7 million tons and see substantial margin improvements as legacy contracts roll off and are replaced by tons that are being priced at today's market.

2024 is a little far out to know market prices, but presently, the gas curve is over $3.10 as of last night. A price where coal dispatch in front of natural gas in most of our markets. So we believe the next 3 years will be very strong from a sales perspective. And at the end of that time period, we should be at or near debt free.

How long will there be demand for coal is a question that we get often. And I think something here that popped up as of late, I think speaks loudly. On October 27, the MISO independent system operator, MISO, who manages Indiana's

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and 15 other states' electricity grids, announced that an emergency declaration is likely if harsh weather collides with unforeseen power generation outages in the next 3 months. They further stated that they have modeled a number of scenarios that could cause this to happen. MISO is simply very tight on capacity. This causes us to believe the coal-fired baseload generation, generation that has an on switch will be needed much longer than many of the headlines will have you believe.

I mean, if we sit here with all these coal plants on today and MISO is warning of an emergency situation starting in December, what happens when you start down -- start to shut down some of these generators that have on switches and replace them with things that do not have on switches, which is why MISO estimates that its grid will not reach 80% carbon-free until 2050. That's 28 years from now. Thus, we believe Hallador is well positioned to continue to generate positive cash flow for many years to come.
And with that, I will open the call up to questions.

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Question and Answer

Operator

[Operator Instructions] First question comes from Dustin Capper.

Unknown Analyst

You made the comment that in 2023, you're selling some volumes at today's market prices. Can you talk about today's market price? And can you also talk about whether or not you're seeing your customers extending the terms of their contracts?

Brent K. Bilsland
President, CEO & Chairman

So as far as market prices are substantially higher for any new business. I think the thing that we want to point out here, why we talked about the future is we have a small open position for next year. We're in negotiations with the customer to fill that. We're very confident we will get that done. And if we don't, quite frankly, we're confident we've got other buyers behind them that would like to have that full. We just didn't get the deal completely before earnings. But the issue is we have -- so we're going to ramp up production. We have the equipment to do that. But for a price increase, we will see a price increase. We're seeing some cost increase. So we think our margins are slightly better next year. But we think our margins are much, much bigger out in 2023 because we just have so much open position, right? So we're replacing -- we're pricing up a much larger percentage of our sales versus what we're doing here in the third quarter or here in 2023. We'll see more pricing increase in the third quarter of '21. But we just didn't have a huge open position in 2022.

So we're seeing volume increases. That will help our EBITDA. You have inflationary pressure on one hand. We had some condition issues here in the third and will carry a little bit into the fourth quarter. That will dissipate, and we're already basically coming through those issues. But -- and then as our volumes increase, we're hopeful that our cost structure come back down. So we think margins are slightly better next year. We know volumes will be higher. We know volumes will be higher in '22.

We also strongly believe that our margins have significant increases out in '23. '24, we really haven't spent a lot of time pricing full out there. We have -- we are about to book some business out in '24. And we -- again, gas prices are kind of what, our competitor and the curve still looks really good out there. So we feel good.

Our business has materially improved, looking out over the next 3 years. And we feel that from a deleveraging scenario, we did a good job of deleveraging in this quarter, but we see much clearer visibility in free cash flow and paying down debt over the next 3 years just because the market is so much stronger. So we're happy about that.

Unknown Analyst

Got it. Very helpful. And where are today's spot prices?

Brent K. Bilsland
President, CEO & Chairman

Well, again, we've got ongoing negotiations. So we don't really spend a lot of time on talking about what spot prices are today. I would say, in what time period are you talking about, there seems to be dramatic differences. I would say what's unusual about this period of time is, I think the market is still very short coal going into winter and pretty much. We believe the market to be pretty much sold out, and we believe buyers will still be short. You've got MISO saying that if it gets cold and there's an unsuspected outage of a generator and anywhere in their system, they're going to have an emergency situation. The capacity is tight, right? We've seen a lot of headlines about replacing generation, but I don't see how you do that when they're so tight now.

So we feel that pricing is much stronger. And quite frankly, we think these assets have to run for many, many years. And MISO agrees with it. Unfortunately, MISO doesn't hold press releases every week and say it very loudly. But that's what they're saying. And if you look in their publications, you can find that.

Unknown Analyst

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Got it. That's very helpful. And then just thinking about again on 23, you sold it roughly a little under $4 million, you're expecting to produce or sell $7 million. Around $3 million you haven't sold as of today tons. Is it fair to think on those -- on that $3 million of volume, we could think 50% to 100% prices higher than today's levels? 50% higher in today's levels?

Brent K. Bilsland
President, CEO & Chairman

Well, that's -- not quite sure how to answer that. I'm not sure what you mean from today's level -- today's average price? I think that -- again, we're still negotiating that. So I don't really want to speak to what that price is. We just know that that's going to be significantly higher. What does that do to our average price? I think you'll see our average price move up somewhere in that 10% to 15% range out in 2023.

Operator

[Operator Instructions] Our next question comes from Lucas Pipes of B. Riley FBR.

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

Brent, I wanted to -- I also wanted to touch base on the pricing side and maybe hone in a little bit on Q1 versus 2022. If I recall correctly, you mentioned there's going to be that $3 per ton price increase in the fourth quarter. And then in 2022, the average contract price today would drop again a little bit. What led to that dynamic that's a little unusual kind of given where we are in the market and would appreciate your perspective on that.

Brent K. Bilsland
President, CEO & Chairman

Well, I think what we're seeing is we have some spot tons in the fourth quarter. We thought some of that would fit in the third quarter. I guess a little of it did, but not as much as we thought we ship in the third quarter. So we just have a higher concentration of those higher prices hitting the fourth quarter to the mix of when those coal tons got shipped. When we look at the first quarter of next year, you're going to have kind of a mix of carryover tons of 2021 and 2022, you've got new contracts beginning. So the mix is just different, Lucas. I mean that's kind of what we see there.

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

Got it. Got it. That's helpful. And how many tons do you have left to sell for 2022?.

Brent K. Bilsland
President, CEO & Chairman

Well, we're -- quite frankly, we're trying to figure that out, and that's part of what the negotiation is about. So we're producing -- we're going to produce 5.7 million to 5.8 million tons for the year. We've got -- we're in that ramp period now. We're probably at about 6.5 million ton pace as we speak. We just hired 94 employees in the last 40 days. So we're trying to get those people trained, put in position. We've got the equipment to ramp to 7 million tons, maybe a little more. But the question comes down to how fast can we hire, which has really been strange because we actually bought through September. So we were unsuccessful in our hiring practices through September. And then we had a fantastic October by getting the word out. Perhaps some of the government money finally drying up in early September allow those people to take a few weeks and then come back to the employment lines. So we feel much happier because we've hired so many people in the last let's just call it, 5 weeks, right?

So extrapolating that out, you would say, well, gosh, you hired almost 100 people in a month, you ought to be able to hire another 100 people in another month. We just don't know the answer to that, right? Is that going to take us -- we'll hire all tomorrow if we find the right candidates and we feel that -- we've got the work. We've got the sales, we've got the equipment. We're just trying to get the right people in seats and get them trained and keep a safe and efficient operation.

So we don't have great certainty as to will we be able to do that over 2 months? Will we be able to do that over 4 months? That's what we're trying to gauge and that will drive how many tons that we have to sell next year. But we're targeting 7 million tons, so.

Lucas Nathaniel Pipes

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B. Riley Securities, Inc., Research Division

Got it. And so should I understand your -- like is the figuring out process is that on the kind of capacity line, meaning how much can you scale up? Or is that also on the revenue line and dependent on negotiations with customers.

Brent K. Bilsland
President, CEO & Chairman

I'm sorry, Lucas, can you repeat the question? I didn't quite catch all that.

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

Is it really only the -- so is what you have left to sell only dependent on scaling up, getting labor in place? Or is it also dependent on getting the right price when you're talking to your customers? So the question is like, s -- are this additional production capacity, bringing on additional people contingent upon a certain price level, for example, from your customer?

Brent K. Bilsland
President, CEO & Chairman

No. The price level is more than sufficient to justify bringing on additional employees. And this market is going to be strong for a while because we don't think -- we think our customers are going short in the winter. We don't think they're getting all the coal bot that they need for 2022. So they're not going to be -- it doesn't look like to us they can build inventory in 2022 to 2023 is probably the first chance they get to have a building here.

Now all this -- it's whether dependent -- market dependent, and I sat here in November of '19, and had never heard of COVID. So things happen to change that. But from what we have today is we have the strongest market that I have seen in the history of my career. We've got Elliott Batson here, who leads up all of our sales has been doing this for 3 decades. I think he would argue it's the strongest market we have ever seen. So will that dissipate?

Yes, it will dissipate in time. Will it dissipate tomorrow? It can't. There's just -- there simply isn't enough tons. The capacity -- nobody is putting in new mines, right? So the capacity is you're seeing people go out and kick the tires of old closed high-cost mines and say, "Well, gosh, could I permit it to kind of reopen this? Could I get equipment? Equipment is hard to get. Could I get labor? Labor is hard to get. And then how long a contract can I get? So those are all the things that people are weighing.

And we've looked at other projects that we wouldn't even thought about 6 months ago because they were so far out of the market, but the market is strong enough that it justifies it. So as we looked at it and as we've looked at other projects, we have said, look, the #1 thing we can do is hire people, right? We have the equipment, we have the infrastructure. We have all that in place. The quicker we get people in place, the quicker our cash flow comes up and the more tons we had to sell.

So we'd like to provide more color on that. Unfortunately, we're right in the middle of some pretty significant negotiations, so we can't elaborate too much other than to say the general trend is we're going to finish strong in '21. We're going to run more tons in '22. We're going to run more tons and see significant margin appreciation in '23. And there's nothing right now that tells us that '24 won't be healthy. It's just we're not pricing a lot of tons out in that period. So we're still seeing the market be 2- to 3-year commitments is what we have seen so far. Plenty of other markets going to 10-year contracts, but we have not experienced that.

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

Very helpful, Brent. I'll have another question and I'll jump back in queue. And on the labor side, you said you had a successful month of hiring. How is it integrating this new workforce into the mine? What's the scale level? What's the impact of productivity scaling up with new folks?

Brent K. Bilsland
President, CEO & Chairman

Well, we're trying like I said, we add about 630 employees, we're trying to hire, I think, 610. If you're looking at the end of September to where we're trying to that 840. Half of that, let's say, 100 are new people that have never been underground

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before and 100 are experienced people. And of that 100 experienced people, probably 50 of those that work for us, thought the grass was greener somewhere else and has come back.

So we've done this before. We just don't expect them on day 1 to be really clicking. Does that take a quarter? Does that take 2 quarters? It's somewhere in there. Of course, we've got another to cut on some odd employees that are very well experienced, very tough, very much in line with what -- how we think. And it's blocking and tackling. It's not something that we're afraid of. It's just we don't have the clear crystal ball on how quickly we can hire another 100 people.

Would that be 30 days or that could be 120 days. It's somewhere in there. We got Thanksgiving coming. We got Christmas coming. We've got new years coming, people not as active switching companies or coming to work for us during the holidays and say, "Well, I'll start after the first of the year." We just don't know the answer to that. And this is a very, very tight labor market. Feel much better today than I did a month ago.

So we were trying to hire in August to September, and we just -- we weren't having the success. We think we found a winning combination. We hope we found a winning combination. But until we've delivered it, we don't want to overpromise anybody.

Operator

[Operator Instructions] Next question comes from Henry Schlett from Ocean Capital.

Unknown Analyst

Congratulations on a great quarter. You've done a really good job of explaining how the not-too-distant future has improved the outlook of the company and accelerated the debt paydown schedule is the explicit goal to be debt free?

Brent K. Bilsland
President, CEO & Chairman

Yes, I think it is. I mean I say that, we were net debt free in 2014. We went out and bought a company for roughly $300 million. So we know that if we deleverage our balance sheet, that we can be more aggressive on opportunities that we see come in front of us, right? So we focus every quarter, every Board call on reducing debt. And that's something very much that our Board feels strongly about, that's something I feel strongly about. We know that this company will last for 100 years to come as long as we do not get over-levered.

And so -- and that's part of the reason why we have always been longer -- well hedged, right? If you think about Hallador, we're the company that has been well hedged through this process, right? And we've seen a lot of competitors go out of business because they weren't well hedged. Now do I wish that we had nothing sold this year and we were pricing everything on the spot market? Absolutely.

Would I have slept very well doing that? No, I'd probably be out of a job. So we view it as -- our Board owns a 30-some percent of this company. I own a significant portion of this company. We work very hard at it every day to figure out how we're going to generate positive cash flow, reduce debt and at the same point in time, look at opportunities, right? We were able to transact this year on acquiring Hoosier Energy's interconnect. We think that is a very material asset that is now on our balance sheet or will be starting in 2023. And it gives us a platform that as we get down the road and as we delever our balance sheet.

Now again, we can't -- we have the rights to plug into the grid probably starting in June of '23, right? Whenever the Merom power plant goes dark. And so for a period of time thereafter is when we were really focused on building out the solar and batteries that accompany that asset. We said on previous calls, we think that asset could support up to $3 billion of investments.

So there's plenty of money out there for renewables. Our goal is to use the cash flow from the coal business, pay down debt. We think the tail of that cash flow is much longer than what the market gives us credit for. And we have a -- we can either return that cash to the shareholders, then at that point, the share buybacks, dividends or we can invest in our solar platform. So we're in a battery platform. So we think we're unique in this regard. There's not too many coal companies out there at our solar play. And we will we will make those decisions when we get a little further down the road. But that's how it's shaping up. And I think the thing that I sleep better at night because I know now that we have a good enough market to get us to where we're debt free or near debt free.

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Unknown Analyst

So because [indiscernible] something a lot very familiar with the past is that -- is the history with the $300 million transaction with bank debt going to inform future transactions of that type? And are those being mapped into the current valuation, which you guys eloquently point out in all of these calls is quite low. I mean, you're at three times free cash flow for the last 9 months, that's a pretty high bar for a negotiated transaction on the investment side, return-wise.

Brent K. Bilsland
President, CEO & Chairman

Yes, I think what you're saying is that we should buy in stock. That's what I'm hearing you.

Unknown Analyst

Well, no. I just -- I know you can't talk specifics, but color-wise as far as the frustration level on the Board for the current valuation of the stock itself, I know I don't think buying back stock with $100 million in bank debt is wise when your market value is at $80-plus million. I'm firmly in support of the pay down of debt. I wondered where that was the goal to go to 0. And I would say, as a significant shareholder for -- on behalf of our customers, wouldn't want to see that debt replaced on a negotiated transaction when the valuation of the company is where it is.

And on a question basis, what is the level of frustration on the part of the Board with the current valuation of the company? Is there a discussion being had on a transaction to possibly take that out of the market's hands?

Brent K. Bilsland
President, CEO & Chairman

I think that our Board, a frustration would not be the right word, I guess. I think our Board feels that they own a large percentage of a company that has a future of free cash flow. I think our #1 focus has been to pay down debt. Would the Board want to take out the existing shareholders? That's not something that we're talking about. I'll put it that way at this time. And I think that, again, the good news here is we have high certainty of being able to pay off the company and still having an asset that's going to generate positive free cash flow. We have an investment that can provide in the solar and battery business that we think provides an investing opportunity long into the future.

So as we get 2 years down the road, let's say, we will be evaluating what is the best use of our capital at that point in time? Is it to buy in shares of the company? Is it to issue dividends to the shareholder? Is it to invest in this platform or just be the developer and use other people's money for this solar battery platform? Or is it to buy something that's not even on the radar today?

I think that for now, we are in the mode of putting together a contract position that ensures our security and cash flow for the next 3 years. And as we continue to delever, we'll start to look more aggressively at those options. I still -- I hope that answers your question.

Operator

[Operator Instructions] Our next question comes from Andrew Love, Hallmark Investment Corp.

Andrew Love

Brent. I'm returning to the question of pricing. Obviously, it's a little disappointing that our prices have gone down this year, obviously, exacerbated by the fact that our costs have gone up. Fortunately, we got rescued at least for the time being by the -- forgive us so the PPP, but that can't be replicated. And I guess it's a little bit disappointing to see the book of business for 2022 at only a slightly higher price than what we're getting for 2021, but I understand a lot of that was booked before the market heated up.

But really more disappointing to me is that if you look back at our earnings report, for the second quarter, there was nothing booked for 2023. And now we're reflecting 3.8 million tons booked at $41.30. Well, that's a little better than what we've been doing, but not much. And it certainly doesn't reflect in my mind, the hottest market in memory. I'm in the gas business, and we've had a hard market on our commodity prices, more than doubled in that period of time. And my understanding is that coal prices somewhat reflect what's happening in the gas market. And I'm not seeing it in 2023, and I'm kind of baffled as to why that price increase for those recently booked tonnage doesn't reflect the improved market very much.

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Brent K. Bilsland
President, CEO & Chairman

Well, 2023, what you're seeing that's report in 2023 was not reported in 2020 in the second quarter. And we have those tons booked, it just wasn't reported. We didn't go out that far in our sales book. We have sales out to now as far as 2026, we have some tons. And the market gets a little confused on that because sometimes we have tons booked, but unpriced. It gets a little tricky sometimes, and we get a lot of confusion over, well, you see these tons and I see these prices and then the prices change, but the tons in price didn't change. So we have commitments to certain customers especially particularly out in the later years to or tons that just aren't on price.

So we added the year 2023 from a reporting perspective here in the third quarter, but those are legacy tons. And so you'll see the pricing improvement on the unsold portion of that business.

Andrew Love

So it's only 3.8 million? Is that all that's been booked for 2023?

Brent K. Bilsland
President, CEO & Chairman

Correct. We are in discussions for 2023. And we think we will have -- we think it's very likely we'll be able to put together a sales book for 2023 of 7 million tons. So that's why we're trying to say, Andy, that we expect both price improvement and margin improvement significantly in that 2023 year. It's not going to see as much in 2022 because we have contracts that -- legacy contracts that customers can flex up their tonnage at the old prices. We have some carryover tons that will come in from 2021 into 2022. And then we have an open position, part of what goes into our math is how fast will we be able to add people, right? Will we be able to produce more tons in 2021 than we think or will it take us longer to hire people, and we won't be able to produce quite as much. So that's why we can't give you absolute certainty on what 2022 pricing is going to look like.

But at the end of the day, I'm trying to communicate to everyone that we see slight margin improvement in 2022. We're really going to see volume improvement, right? So we're going to run the same margins roughly, maybe a little better at higher volumes than '22, and '23 is when we will see margin expansion at these higher volumes.

'24, again, our sales position is even open more so. What will pricing be out there? We just don't have great clarity. The gas market is strong. And you're in the gas business. So if you guys ramp up lots of production, that will drive prices down. We think that the gas market is tougher to get capital than it was a couple of years ago. We think there's some pipeline constraints out there. We're seeing the public companies say that they want to return cash to shareholders, they want to pay down debt.

So all of these things lead us to believe that even though the price signals are higher for oil, for gas, for coal, we're not seeing the supply response we've seen in last year. And we think that's in large part because of all these other additional ESG constraints from not being able to get capacity -- or capital or having shareholders demand debt reduction, demand share backs, demand dividends be paid rather than just expand, expand, expand. So in the coal space, like I said, we're not seeing a lot of expansion. We're seeing all the old assets run as hard as they can run.

Will there be a couple of new competitors pop up? I'm sure there'll be some, but we know that they're all very high-cost mines. They're going to have a hard time getting labor. They're going to have a hard time getting equipment. So we just think the supply response is going to be more muted than in past years. And that's not just for coal. We think that for gas and oil as well. Time will tell.

Operator

[Operator Instructions] Our next question is John Moran, Robotti & Company.

John Moran

I just wanted to follow up on that last question and clarify that. So of the 3.8 million tons booked in 2023. Is anything above that unencumbered by any contract you have with existing customers? In other words, that would be subject to a price negotiation that's not encumbered by something in an existing contract.

Brent K. Bilsland

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President, CEO & Chairman

No, those will be new sales.

John Moran

But not subject to any pricing mechanism in an existing contract?

Brent K. Bilsland
President, CEO & Chairman

No, we'll we be looking to sell another 3.2 million tons out there.

John Moran

And you have a couple of competitors selling into your markets. Do you have any read or visibility into what an unencumbered ton being sold in 2022 is right now or '23%? That's -- I guess, if you can see that, there'd be no reason you could not disclose that. Is there or...

Brent K. Bilsland
President, CEO & Chairman

Again, we don't -- we may not have it and not getting into discussing prices, particularly when we are in active negotiations with our customers on significant.

John Moran

Trying to get sense. If you -- and I don't want to know anything about your ongoing negotiations with your customers. I'm just wondering if that's something you have visibility into? Somebody else's contract or tonnage sold in a freely negotiated transaction for 2022 or 2023. I just -- is there any sense of what that's...

Brent K. Bilsland
President, CEO & Chairman

Yes, we have a gate on the market. We do not know what our competitors are negotiating or what their terms are, right? I mean that de-collusion, but definitely -- we definitely have.

John Moran

One other question on your -- on that renewable business in the mid-2023 access to the grid. Is that -- can you remind me or has it been disclosed? Is that a legacy interest that you own? Or is that something that you recently acquired?

Brent K. Bilsland
President, CEO & Chairman

So we have a joint venture development relationship with the company we acquired it from, not a legacy asset. I mean, basically, they have a coal-fired power plant and the place where it plugs into the grid, the interconnection to the grid, we have obtained -- we obtained no physical assets, but we've obtained the rights to when they unplugged from the grid, we have the right to plug in.

John Moran

And then when did you acquire that right?

Brent K. Bilsland
President, CEO & Chairman

We announced that transaction, I believe, June 2 of this year.

John Moran

But that was a transaction? Like I can't -- was there a consideration for that? Or why did they select you? Or what was the consideration?

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Brent K. Bilsland
President, CEO & Chairman

So there's -- I can't get into the details of that transaction, but there was no money paid upfront.

John Moran

Is there anything that you can say about why they would -- like why you had the edge there? Why you were selected?

Brent K. Bilsland
President, CEO & Chairman

I would prefer not to. We think there's -- we think we have some insight on how to do that and how to help a customer been value out of one of their legacy assets. We think that potentially is repeatable. And so we don't really want to give away the secret sauce on our earnings call, so.

John Moran

No, I understand. I'm just trying to understand if there's something proprietary there or it's just, I guess, the project that you guys have been working on for a while and it came together. I don't -- anyway, I hear you. I just thought I'd ask.

Operator

[Operator Instructions] We have a follow-up question from Dustin Capper.

Unknown Analyst

My question was answered. Congrats, guys.

Operator

[Operator Instructions] This time, we have no further questions. I'll return the call back to Mr. Brent Bilsland for final comments. Please go ahead.

Brent K. Bilsland
President, CEO & Chairman

I thank everyone for their interest in Hallador, and taking time to join us for the call today. And look forward to talking to you again after the first of the year. Thank you very much.

Operator
The call is now concluded. Thank you for attending today's presentation. You may now disconnect.

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