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HD **BREAKINGVIEWS-One U.S. coal miner could be a canary**

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CHICAGO, June 10 (Reuters Breakingviews) - Consol Energy is shaping up to be a survivor. When the $11 billion coal miner bet big on shale, investors bailed for rivals focused exclusively on the black rock. Consol's hedge turned out to be prescient, however, and could be a telltale sign for the energy industry.

Though Consol already had a small operation selling gas formed as a byproduct of its coal production, and owned a subsidiary with some shale assets, the market was nevertheless surprised when the company in March 2010 announced a $3.5 billion deal to buy some prime gas acreage. The acquisition repositioned Consol as a serious gas driller.

The decision didn't go down well among investors. Consol's shares tumbled 10 percent on the day, and underperformed those of larger Peabody Energy for months to come. Building an exploration and production business looked like a distraction. Gas prices were already falling quickly from post-crisis highs. Meanwhile, globally traded coal rates nearly doubled in the ensuing nine months, thanks to rampant Chinese demand and flooding in Australia's major coal-producing region.

By 2012, however, fortunes had reversed. Gas prices started moving higher, Chinese growth slowed and U.S. power plants ditched coal for cleaner-burning natural gas.

Suddenly, deals like Peabody's $5 billion hostile takeover of Australian coking coal producer Macarthur Coal in 2011 didn't look so good. The Obama administration's new emissions rules for power plants announced earlier this month will further hit demand. As a result, Consol's market value has gained nearly $2 billion since its shale foray. Peabody's has more than halved.

It calls into question some of the focus fetish by energy investors. Oil majors such as BP and Eni might have a better shot at adding value by carving themselves up. ConocoPhillips, for one, did it to great effect.

Consol's experience, however, suggests diversification can work, too. It's probably the better choice when a different form of energy can be readily substituted, such as gas for coal, or more aggressive government action on global warming is a threat. Companies that are working on risky technologies like oil sands and Arctic offshore drilling should also study Consol. It's a coal miner that could be a canary.

CONTEXT NEWS

- The U.S. Environmental Protection Agency on June 2 proposed new rules that would require the country's existing power plants to cut their carbon dioxide emissions to 30 percent below 2005 levels by 2030.

- Consol Energy's market value was $10.8 billion on June 10, an increase of $1.9 billion since it announced a $3.5 billion deal to buy natural gas assets from gas driller Dominion in March 2010. Over the same span, Peabody Energy's market capitalization fell from $12.7 billion to $4.5 billion, according to Thomson Reuters data.

- The price of imported coal in Europe, the main export market for U.S. coal miners, has declined by about 35 percent since Peabody completed a $5.1 billion hostile takeover of Australian metallurgical coal producer Macarthur Coal in December 2011.

- Reuters: U.S. unveils sweeping plan to slash power plant pollution

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