Final Transcript

Q4 2020 Ramaco Resources, Inc. Earnings Call

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Corporate Participants

Randall Atkins *Ramaco Resources, Inc. – Founder, Chief Executive Officer, Executive Chairman, and Director*

Chris Blanchard *Ramaco Resources, Inc. – Chief Operations Officer*

Jeremy Sussman *Ramaco Resources, Inc. – Chief Financial Officer*

Conference Call Participants

David Gagliano *BMO Capital Markets — Analyst*

Nathan Martin *Benchmark Company — Analyst*

Lucas Pipes *B. Riley — Analyst*

Presentation

Operator

Good morning, ladies and gentlemen and welcome to the Ramaco Resources Incorporated Fourth Quarter 2020 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instruction will follow at that time.

[Operator Instructions].

I would now like to turn the conference over to your host, Chief Financial Officer, Jeremy Sussman. Thank you. Please go ahead.

Jeremy R. Sussman — Chief Financial Officer

Thank you, operator. On behalf of Ramaco Resources, I'd like to welcome all of you to our fourth quarter 2020 earnings conference call. With me this morning is Randy Atkins, our Chairman and CEO; and Chris Blanchard, our Chief Operating Officer.

Before we start, I'd like to share our normal cautionary statement. Certain items discussed on today's call constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements represent Ramaco's expectations concerning future events.

These statements are subject to risks, uncertainties and other factors many of which are outside of Ramaco's control, which could cause actual results to differ materially from the results discussed in the forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made, and except as required by law, Ramaco does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Lastly, I'd encourage everyone on the call to go on to our website ramacoresources.com and download today's investor presentation under the events calendar.

With that said, let me introduce our Chairman and CEO, Randy Atkins.

Randall W. Atkins — Founder, Executive Chairman, and Director

Thank you, Jeremy. As always, I want to thank everyone for joining us today to discuss our year-end results and our crystal ball forward look into 2021. We held our first Board of Directors meeting of the year a few days ago. I described to the Board that in looking back at 2020, it was kind of like you were transported into an Indiana Jones movie, where you were trying to outrun some huge rolling boulder only to jump out of the way into a pit of snakes. It was a bad dream type of year that I'm happy to report looks like it may finally be in the rearview mirror. Sadly, it left a few battle scars on our reported earnings for the year, which Jeremy will detail for us in a moment.

We basically spent half the year worrying about whether the world was coming to an end, whether we would be able to continue to safely produce. And if so, would we still have any customers? That drove us and into a mad dash to make as much liquidity and sanity as we could possibly do through our combination of actions.

Although they were painful at the time, they did manage to get us about $50 million of new dry powder through the first half of '20, which included both CapEx and cost cuts. We were able to deploy funds to keep operations intact and the ship moving forward, even as our customers went into a freefall. The back half of the year shifted and we actually ended up having record sales, but realized that the demand had not quite kicked into gear to allow us to benefit price-wise from the coming month recovery.

Indeed, we had two large customers claim force majeure on over 200,000 contracted tons, which costs us about $7 million in EBITDA, which would have had us report a solidly positive second half EBITDA. Indeed, right now, we have printed more EBITDA in January of this year alone than for the entire second half of 2020.

This year is hopefully going to be very different. I told our Board that there are several market drivers that are all beginning to position our business for what I believe will be a very strong year. We have taken our normal conservative posture and since last fall have placed fixed term price domestic and floating index price export contracts for about 1.7 million tons, which works out to about 80% of the mid-range of our 2021 production target of 2.1 million tons. Any new business that we have placed subsequent to year-end has now been at substantially better prices and indeed has been placed at a premium as opposed to a discount to the benchmark.

We now hope to have 500,000 to 600,000 additional tons to place into today's rising markets for the balance of the year. We are now pretty well completely sold out through the second quarter. This suits us fine since we see the back half of '21 is where there may be potentially some very interesting price movement.

And to that end, we announced earlier this week, we have decided to put the "Adding New Production" sign back on the front door. As I told the Board, it was somewhat like we had lost a year. At this same time last year, we were also considering whether to approve the continuation of the Berwind slope mine. As you might recall, February '20, was when the first whiffs of the pandemic were beginning to appear in the U.S, and we decided to shift into neutral and defer the Berwind expansion until we saw more market clarity.

I will get to an assessment of the market dynamics in a moment, but suffice to say we regard today as a moment to begin to place some longer-term bets on market direction. As my grandmother wisely counselled, if Bobby wants a blue suit, maybe you need to turn on a blue light. The markets are now telling us to turn on that light.

The global steel business is back in a big way. Steel prices have jumped 150% since last summer, and steel utilization, which had hit a 10-year low last spring, has jumped almost 50% since that time. Steel inventories are now at their lowest levels in over 40 years. Our demand side of the business looks comfortably like it is coming into focus. We have correspondingly seen benchmark prices jump almost 40% since the start of the year, and the forward curve is comfortably in contango at about $160 per ton benchmark.

When the $60 per ton Chinese arbitrage — which was created, I would remind everyone, by political and not market factors — eventually lifts, it will create more pricing positive dynamics. The bottom line is, we think the market has a way to go, yet both in terms of price and as well in demand.

So, let's review a few metrics on the macro side. The world will be waking up gradually over the next 12 to 18 months, as the economies of both the developed and the developing world gradually shake off the after-effects of COVID. As we've said before, met coal is a proxy for steel and steel is a proxy for a nation's GDP.

The central banks of almost all developed countries have decided to embark on massive fiscal stimulus packages almost simultaneously. This stimulus will be focused on increasing sustained infrastructure and consumer spending across the board. This of course, bodes well for both steel and thus its primary feedstock, met coal. Assuming COVID abates over the next two years, there will be an ongoing global restocking among all developed economies, and almost at the same time, we think this will further play into met coal demand. But what about supply? In previous cycles, if the markets told you the demand required one new coal mine, almost every producer would always oblige. They would each add one new coal mine and there went to supply imbalance.

I have a suspicion that this time things may be different. Our peers are also coming off terrible operating and financial performances from last year. We're probably the only U.S. met coal company that maintained as much or more liquidity in 2020 without raising dilutive equity at fire sale prices or issuing onerous term debt. Most companies will continue to operate with weakened balance sheets, and in a new Biden administration, they will also operate with substantial political headwinds on their continuing thermal operations. This will be despite some gymnastic public relations attempting to brand themselves as born-again pure met coal producers.

We must also remember that with the exception of ourselves, Coronado, and Warrior, almost every public coal group essentially produces more thermal than Met coal. Many have punishing legacy thermal reclamation and ARO liabilities that will weigh on their ongoing concern ability in increasingly more acute fashions as the years progress.

We enjoy the lowest legacy liabilities in the public space and by a huge margin. Similarly, we have the lowest adjusted net debt and that includes ARO-to-EBITDA by huge multiples. We are less than one-times this ratio while our highest peer is almost eight times.

I say all this to point out that I do not feel this time we will have a huge supply rebound in the near term.Yes, there are some companies that have previously announced the expansion, some much larger than ours. But on an investment dollar per new ton basis, we are vastly ahead. And indeed, some announced expansion has also been deferred and may not occur.

And by the way, there is also the small matter of finding new capital for growth. The capital markets are punishing all coal groups for ESG reasons, underperformance and certainly any thermal production. To make any headway, you somewhat have to go it alone. And indeed, that is what we have chosen to do.

On Tuesday, we announced the expansion of our operating profile to add both two new mines and 50% of new capacity to our current 2.1 million ton production slate. Chris is going to go into some specifics on each project in a moment. The headlights are that we will continue to spend about $12 million to finish the Berwind slope, which adds about 750,000 tons of low-vol production, which will have mine costs in the low $70 per ton range.

It takes us until next year to hit full stride, but we will be able to add some modest production even this year from that mine. Berwind will become our second flagship complex and should produce at these levels for another 20 years or more. Adding to Berwind will be a new mid-vol, High Vol A surface property called Big Creek, which is near our Knox Creek plant, and where we will spend in the neighborhood of $5 million to $7 million. Big Creek will add up to 200,000 new tons of production starting later into this year, with mine cost in the mid to upper $50 per ton range.

Both of these new mines currently enjoy FOB mine margins north of $50 per ton in this market. We look forward to adding them to our mix. Indeed, they both also de-risk our overall portfolio so we are not so reliant only on Elk Creek. Once they are all online, we have almost equal production levels of High Vol A, High Vol B and low-vol.

And we have decided to finance these developments as conservatively as we can. We will pay for these new mines from a combination of working capital, small equipment credit lines and free cash flow. Indeed, we recently repaid our revolving credit line in full last month, so we are operating at strong levels of liquidity at the moment.

These new mines were also cash flow to completely repay any new investment in them in under 1.5 years in today's prices. They're both extremely strong projects. Depending on the markets, they will probably not be our last new projects. We currently have permitted mines to take us to the $4 million to $4.5 million ton production levels, if the markets continue to perform strongly. We will probably not look to test any new ideas for new projects until next year.

We will also look forward to some substantial free cash flow generation as the overall portfolio kicks into gear in a strong market, and we continue to operate with little to no debt or ARO exposure. I would like to point out that unlike many public companies, we are all substantial shareholders and management at Ramaco. We will look to start a policy of prudent return of capital to our shareholders as soon as we feel we have reached sufficient levels of free cash flow to begin a sustained program of regular dividends. We are not far from that time, right now, when we will be in a position to review those options.

And before I turn the balance of our remarks over to Chris and Jeremy, I would like to make some brief comments on some recent changes in our management and Board of Directors. Last year, my partner Mike Bauersachs and I decided to split our areas of responsibility. Mike is one of the best development minds in the coal industry, while I am a little more comfortable operating under the hood of the car so to speak. We decided that Mike would step down and focus on acquisition and development projects at our sister private company Ramaco Resources — pardon me, Ramaco Royalty. There may be some interesting news on that front indeed in the near-term.

I will continue to steer Ramaco Resources, now with the assistance of Chris and Jeremy, who the Board has elevated to Executive Vice Presidents for Operations and Finance respectively. We have also elevated Jason Fannin to Chief Commercial Officer, who has done a great job on marketing for us in a lousy market and hopefully now that we are headed into a stronger market, will continue his run. We also added B. J. Sturgill to our team last year as General Counsel. Together, all of those mentioned, and the rest of our experienced team, comprise what I believe is one of the strongest management groups in the business.

We have also had some recent changes to our Board. Tyler Reeder, a friend and our longtime Director from Energy Capital, has unfortunately stepped down to turn his attentions back to the power sector. And we have replaced him with both Jennifer Grey and Mahmud Riffat from Energy Capital. We've also recently added David Frischkorn of Houston and Forrest Jones of Charleston, West Virginia as new directors.

At this point, we have a Board with eight independent directors and three inside directors. We also now fully meet all ESG diversity-related matters in all respects. I might also add that our overall Board is one of the strongest and has some of the greatest experience in the coal industry as well.

So, in close, we weathered 2020 as well or perhaps better than most, but we look forward to growing in 2021, perhaps better than most. So with that, I would like to turn the program back over to Jeremy.

Jeremy R. Sussman — Chief Financial Officer

Thank you, Randy. I am going to first go over our fourth quarter 2020 financial highlights and then I will turn to our forward outlook.

To begin with, fourth quarter 2020 EPS and adjusted EBITDA were both down from a year ago. We unfortunately have lots of good company here, which is the result of operating in the middle of a global pandemic. Australian benchmark Met coal pricing fell under $100 a ton for the first time in roughly five years in the fourth quarter. In total, Q4 adjusted EBITDA loss was $1 million. The fourth quarter was negatively affected by a number of one-time cost issues described in our press release, which impacted EBITDA by over $5 million. Chris will describe the larger items in more detail.

In addition, overall, second half 2020 EBITDA was negatively affected by well over $6 million, including $4 million in the fourth quarter alone, due to more than 200,000 tons of coal that was force majeured by our two largest customers, and subsequently resold into a weak spot market.

The good news is that both of these unusual items are behind us. Of course, it naturally helps when your customers take their previously contracted shipments, as they have so far in 2021, with the meaningful pickup in steel pricing and demand that Randy referenced.

Lastly, as it relates to the fourth quarter, we were pleased that we were able to sell a record amount of company-produced coal of 515,000 tons as well as record quarterly export volume of over 300,000 tons. While index pricing remained weak in the fourth quarter, our record sales volume foretold a material increase in demand for our product, which in turn, has now translated into a meaningful uptick in pricing.

U.S. metallurgical coal pricing is up more than 50% from its 2020 COVID-induced lows. Simply put, the same customers who caused us disruption in 2020 are now seeking more tons at materially higher pricing than just a few months ago. In fact, we recently signed a term contract with a domestic steel mill for more than a third higher on a price-per-ton basis, compared to our average 2021 committed volume. This of course, is not reflected in our committed volume tables as of December 31, 2020.

Now, turning to our forward outlook, we anticipate overall 2021 company production of 1.9 million to 2.4 million tons compared to 1.7 million tons in 2020. We expect up to 350,000 tons of new production from the 2021 combination of Triad, Berwind and Big Creek as well as more tons coming from our flagship Elk Creek complex.

At the midpoint of guidance, we anticipate mid-60s per ton Elk Creek cash costs, down from $70 per ton in 2020 and more in line with historical figures as we anticipate being able to operate without the market-related disruptions that we had to endure in 2020. We expect 2021 capital expenditures to increase to $25 million to $30 million, up from $25 million in 2020, largely on the back of roughly $12 million of growth capital for Berwind and Big Creek.

Finally, we continue to anticipate paying minimal cash taxes for the foreseeable future due to over $90 million of net operating losses. Overall, I am pleased that Ramaco has emerged from the 2020 challenges with what I soundly believe is the strongest balance sheet in the space, including very minimal debt in AROs as well as no legacy liabilities. I feel that this puts us in a very solid position to be able to resume our previous growth trajectory and increase our production capacity by roughly 50% by the time Berwind is at full capacity by mid-2022.

I would now like to turn the call over to our Chief Operating Officer, Chris Blanchard. Chris?

Chris Blanchard —Chief Operating Officer

Thank you, Jeremy. Before turning to a bit of discussion on our new projects, I want to spend a few minutes reflecting on the full year results of 2020 and offer some granularity on the challenges that we faced in the fourth quarter.

Navigating 2020 was a challenge for us like it was for everyone in the industry. Maintaining our workplaces for our employees in a safe and healthy environment as possible was our primary objective. After minimal COVID related impacts in the first three quarters of the year, we unfortunately did see an uptick in the number of confirmed cases of our employees, as well as among their dependents, late last year. The increase in cases tracked directly with the general increase nationally, and more specifically in the southern counties of West Virginia where the majority of our workforce resides.

Fortunately, the direct impact from COVID has trended downward along with the broader national, state and local levels. Nevertheless, during December absenteeism due just to testing, quarantine and/or recovery from the virus averaged 10%. We're thankful of our employees who have been directly affected, none have had serious complications or hospitalizations from the virus to-date.

The direct impacts of COVID-19 in the fourth quarter financially were over $2 per ton sold between the absenteeism, subsequent loss of production for vacation and sickness, and the direct health-related spending for additional personnel carriers, safety and cleaning supplies, and personal protective equipment. Even more impactful was having to operate with shorter crews than normal and cover with temporary labor when it was available.

In addition to the health constraints in the fourth quarter, nearly every one of our operating mines at Elk Creek had other geologic or operational challenges. Starting with our RAM surface mine, we lost our prime overburden mover during the month of December. While we mobilized with a rental replacement, the costs of this repair and the lower productivity of the rental unit weighed heavily on operating costs and metrics.

At our Stonecoal mine, both in November and December, mining encountered poor roof conditions with two roof falls and adverse ground conditions. We supported these roof areas, modified our mine plans, and moved our section in reaction to these conditions. This resulted in a reduction both in the available work days due to the section moves, as well as lower productivities and higher roof control costs during both months.

Finally, at our Number 2 gas mine, we completed retreat operations in early November and began advancing again in a low coal Sandstone zone, which had been previously identified and mined through on one side. While we knew and projected that production would be limited, the Sandstone zone persisted longer than our initial projections.

While mining in this area, our clean tons per foot was lowered, productivities were lessened materially and our operating costs were substantially higher.

Of course, none of these items are particularly abnormal for Central Appalachia mines to encounter, but to have each location have issues concurrently, while also dealing with a labor shortage driven by COVID-19, was unusual. Unfortunately, a negative perfect storm for our fourth quarter mine performance. Happily, each of these conditions has been largely worked through during late 2020 with overall Elk production returning to budgeted levels during January.

Now, to speak briefly about our new growth projects. As has been reported, we are moving forward to add two new mines to our low and mid vol portfolio. The first project will be the restart of construction on the slope from our Berwind Pocahontas Number 3 mine into the targeted, thicker, higher quality and lower cost Pocahontas Number 4 seam reserves which lie directly above. In response to the uncertain market and economic conditions due to the pandemic, we put this project on hold in March of 2020. We now project the six-to-eight-month construction timeline.

Following completion of the excavation of the slopes, we will move quickly to do the development mining at the top of the slope, with much of this completed in the fourth quarter of '21, which will add some modest new production. During the first half of 2022, we plan to ramp production to two full sections to bring the mine into full operation and at its full ratable production level of 700,000 to 800,000 clean tons annually.

The other new project that we will start is a new High Vol A, mid-volatile coal surface mine located in Tazewell County, Virginia, which we call the Big Creek Mine. This mine permit and associated reserves were acquired in early 2020. These approximately 600,000 tons of recoverable reserves contain both High Vol A coal and mid-volatile coals, which are fully permitted and located in close proximity to our Knox Creek preparation plant. Much of the development work to reach this mine was done by a previous operator.

We project that once we break ground on road and infrastructure projects, we can begin moving production overburden in the beginning of the third quarter '21 with coal production to follow within a month. At full production level, we will mine approximately 150,000 to 200,000 clean tons per year. With a relatively low mining ratio and layering in inexpensive high wall mining tons, we believe this mine will have projected mine cost in the mid $50 per ton range.

The permits we hold cover enough mining for approximately three years that are projected run rates. We hope to find ways to expand the mine life onto some of our adjacent coal reserves, and potentially perpetuate this mine.

In summary, we are glad to have navigated our way through 2020. We look forward to progressing through 2021 in markets that seem to have returned to normalcy with a generally improving world market driven by optimism about emerging from the COVID-19 shadow. We believe the timing is correct to have initiated these projects and restarted our measured growth trajectory, which we have discussed at several of our previous updates.

I would now like to return the call to the operator for the Q&A portion of the call. Operator?

Questions and Answers

[Operator instructions]

Operator

Alright, your first question comes from the line of Lucas Pipes with B. Riley Securities. You may now ask your question.

Lucas Pipes — Analyst, B.Riley

Hey, good morning, everyone.

Randall W. Atkins — Founder, Executive Chairman, and Director

Good morning, Lucas.

Lucas Pipes — Analyst, B.Riley

I first wanted to kind of turn to the marketing side, and Randy, you mentioned the improving market globally, and then specifically the [inaudible] to China. To what extent are you able to tap into that market, or would you say it's really more about taking advantage of the rising High Vol A, High Vol B price? Thank you.

Randall W. Atkins — Founder, Executive Chairman, and Director

Thank you, Lucas. Well, first, congratulations on your new production edition yourself for '21. But as far as your comment about China, it's really a twofer for us. So, if you remember last year, we mentioned that we had initiated a relationship with a group out of Brisbane and Singapore called Square Resources to handle our marketing in the Far East. So we have already been in contact and indeed have decided that we will probably be making some offers on Chinese-related bids that have come to us recently. So, we will be playing the uptick in the Chinese market directly.

Indirectly, of course, because of the Aussie-Chinese political issues — as we're all aware China has embargoed any new Australian coals coming in — and as a result you've got an ARB that's gone from 60 bucks to 100 bucks, I guess, it's about 80 bucks today. And when that lifts, we believe that there will be not only of course a rise in the Australian benchmark but that will find its way also into a rise on the Atlantic benchmark.

When that happens, of course, as anybody's guess. No one's intelligence is particularly perfect when it comes to Chinese political policy. So, we will look forward to that happening at some point, because the economic reality to lift it is of course well in place. So, we look forward to enjoying sort of two benefits from exposure to the Far East here this year.

Lucas Pipes — Analyst, B.Riley

That's very good to hear. I appreciate that additional insight. Thank you, Randy.

And then I wanted to also again this is more marketing related, but touch on the domestic markets. Last year, obviously, was very tough for the domestic steel industry specifically, Q2, Q3 but it's been coming roaring back and you noted that in your presentation as well. But are you getting inquiries for additional domestic comps and I assume, if so, they'd have to compete with some of these higher international prices. So, would be curious kind of to hear your thoughts on those dynamics? Thank you.

Randall W. Atkins — Founder, Executive Chairman, and Director

Yeah, so last fall was tough for us. Because we could see that the market was starting to wake up probably by, let's call it late summer. But the demand equation was not quite there. And as a result, when we came out for the domestic bids early in the fall, we were bidding into still what was a still somewhat weakened market on the domestic side which we knew was going to improve. And it indeed it has. I mean the demand has come pretty well roaring back on the metrics that I described earlier.

And to your point, yes, we are indeed seeing some of those same domestic customers come back to us to try to get more tons that they had need to top off some of their demand that they're looking at right now. And we're having to quote them prices that are well like in excess of what they were able to buy their coal for in the fall. And I think, depending upon how the cards play up for the balance of the year, it should be an interesting domestic sale season coming next fall, because that's somewhat when we estimate that the demand will start to be kicking in even perhaps even more so than it is today and in which case, we expect that the pricing dynamics for the 2022 business will be much different than this year.

Lucas Pipes — Analyst, B.Riley

Interesting, interesting. Thank you, Randy. Then, one last question from me. There's been a lot of news headlines around the more difficult sureties markets, mostly on the thermal coal side, I haven't been hearing much on the metallurgical coal side and Ramaco of course, is well positioned with its extremely low I guess the liability balance and strong balance sheet. Can you comment on, maybe Jeremy, what the impact is for you, if any? Would appreciate your insights. Thank you.

Jeremy R. Sussman — Chief Financial Officer

Yes, Lucas I'll start and then let Randy kind of finish up. So, I mean, the short answer is if we didn't read the trade rags or look at some of our thermal coal competitor reports — frankly, we're seeing no change to how the surety providers are treating us or looking at us. Of course, when you have $15 million of AROs which is 98% below the Group average and no term debt, I think, and obviously only metallurgical coal, mostly underground production, it's a vastly different profile than many competitors who have been producing large open pits for many years or have water issues and what not. So, it's certainly interesting to read in the rags and go through other earnings reports, but the short answer, Lucas, is no change to how we're looking at it.

Randall W. Atkins — Founder, Executive Chairman, and Director

Yeah, Lucas, this is Randy. So, I have been saying for some time that I'm afraid ARO's are sort of the Achilles heel of our business in general, but certainly for the thermal space. And I've seen it as you know, we have on our private company some production operations out in Wyoming. And Wyoming over the last few years has done away with self-bonding, and then, in terms of the surety requirements has dramatically increased their requirements for operators in that state. And the same thing is playing off across the country. And as a result, a lot of us when we look at coal company balance sheets, we really overlook the ARO and the legacy cost, and we just go straight to the actual financial debt.

But the ARO and the legacy liabilities are indeed real liabilities. And, as the recent issues relating to restructuring around Peabody have made clear, the sureties are coming back, and they're no longer simply reliant upon the overall balance sheet of a company to secure those surety obligations and are, indeed are asking for hard liquid collateral. And as we all know, liquid collateral and liquid liquidity in general is not something that the coal industry has in great abundance at the moment.

So, this is something that I think is going to start to play out a little bit more and I'm hopeful that there aren't any regulatory tweaks that the Biden administration may make in this regard, but I will be not surprised if the Biden administration does not take some steps to probably make the general operation of our coal industry a little harder than it was before.

Lucas Pipes — Analyst, B.Riley

Interesting, very helpful perspective. Randy, Jeremy, thank you very much. And everyone continue, best of luck.

Randall W. Atkins — Founder, Executive Chairman, and Director

Thank you, Lucas.

Operator

Your next question comes from the line of Nathan Martin with Benchmark. You may now ask your question.

Nathan Martin — Analyst, Benchmark Company

Hey, thanks. Good morning, guys, and thanks for taking my questions.

Jeremy R. Sussman — Chief Financial Officer

Hey Nate, thank you.

Nathan Martin — Analyst, Benchmark Company

First, just a quick clarification, I think to make sure I heard the comment correctly. I think Randy, you mentioned on the domestic side that you guys recently signed a contract for, I think it was more than one-third higher of a price compared to your current 2020 committed volumes. I just want to make sure I heard that correctly.

Jeremy R. Sussman — Chief Financial Officer

Hey, Nate. Yeah, it's Jeremy here. I think, I mentioned that and yes, indeed, you did hear that correctly.

Nathan Martin — Analyst, Benchmark Company

Okay. Got it. Great. And just to kind of goes along with some of the domestic demand comments that Randy just made. So, thanks for that clarification. And then congrats again on the announcement to move forward with Berwind and Big Creek. I did notice, Berwind costs are now expected to be in the low-to-mid-70s. And I think in the past, you guys had always mentioned the cost 80 — somewhere in the 80s. So, what's got you more comfortable now and believing those costs should be even lower than originally planned? Thanks.

Randall W. Atkins — Founder, Executive Chairman, and Director

Sure. I'm going to let Chris answer that specifically. But the simple answer is that once we hit the Berwind 4 slope, it is a substantially higher amount of coal. The amount of footprint inside the mine, it goes almost to 7 to 8 feet of carbon. So, Chris why don't you provide Nate a little bit more granularity there on cost?

Chris Blanchard —Chief Operations Officer

Yeah, thanks Randy. And Nate, to your question specifically, the information we have now was afforded to us by the startup of our Triad mine, which is in the same seam that our Berwind mine will ultimately be in once we complete the slope.

And so, we have some real live operating data and the most specific one is the mine recoveries that we are seeing at the coal mine coming out of Triad and the Pocahontas 4 Seam are substantially higher than our initial projections for the seam. Transportation, the trucking and the washing costs are one of our biggest cost components at that coal mine. So, the improved recovery is the driver on the cash costs.

Nathan Martin — Analyst, Benchmark Company

Got it. Thanks for that information, Chris. I appreciate it. And best of luck to you guys.

Jeremy R. Sussman — Chief Financial Officer

Thanks, Nate.

Operator

Your next question comes from the line of David Gagliano with BMO Capital. You may now ask your question.

David Gagliano — Analyst, BMO Capital Markets

Hi. A lot of my questions have been asked and answered. But I just want to ask one on the operating side. Obviously, the Elk Creek complex is a huge engine of the volumes and ground conditions or roof falls and sandstone intrusions are not ever really, I mean are typical I guess I would say in general in Central App. But I did want to ask about the guidance for 2021, the 1.9 million to 2.4 million tons, and what you're factoring in to that guidance in terms of any potential additional production disruptions.

And also, if you could just comment a little more detail on what you're doing to, if there's anything you can do, to address some of the issues that came up in the fourth quarter. Thanks.

Randall W. Atkins — Founder, Executive Chairman, and Director

Chris, why don't you handle that one? At least to start with.

Chris Blanchard —Chief Operations Officer

Well, I mean, as you said, Dave, roof falls and ground conditions and sandstone, particularly in Central App, aren't unusual. And we've definitely had them at our mines since 2017, when we started ramping the property up. We just had multiple occurrences of all of the above in the fourth quarter so that, normally with four operating mines at Elk Creek, if we have any one that's struggling the others are operating normally, and we've got enough built into our budgeting that the other three or four carry the one that's struggling.

We just happened to hit where everyone struggled, particularly last half of November, first part of December. So, we aren't expanding our coal mines anymore as far as getting deeper into the coal mine. We generally speaking know the conditions that we'll have throughout 2021 and 2022 at these coal mines. And while the sandstone persisted longer at Number 2 gas, it was by a matter of weeks, not months or large part of the year. It just had an outsized impact in fourth quarter with two vacation periods already.

That said, if we were to run into prolonged conditions that caused a downturn at one of the mines at Elk Creek, we have the ability to go to a second operating section at our Number 2 gas mine or do some other operational things to cover the gap in production. Currently, as we're running, the mines that we have in place can outperform our Elk Creek preparation plant. They can produce more raw coal in a week than the plant can process at full capacity. So, we do have some slack built in there already.

Randall W. Atkins — Founder, Executive Chairman, and Director

Yeah. And Dave, this is Randy. A couple other points just to make on an Elk. So when we prepared our guidance, we kind of talked about this a little bit. So, we've got about a 300,000 ton delta there in our guidance for Elk. But you got to remember that, we've got a number of mines on that complex. So as Chris said, we do have some optionality to move around.

I really think the main constraint we've got on Elk of course, is our processing capability. And to that point, one of the things that we've got on our to-do list at some point over the next few years is probably expand our prep plant capacity there at Elk which will probably, at least in our current plans, probably bump that production up by then another half million tons. So, your points absolutely well taken on the geologic issues that Central App has a tendency to find more often than not. But I think particularly at Elk, we've got a number of workarounds for that.

David Gagliano — Analyst, BMO Capital Markets

Okay, great. That's very helpful. Thanks. So just the difference between the low end and the high end of the range, the 1.9 to 2.4. Is that more operating based or more kind of marketing based in terms of that… what would it take to get to the high end versus and what's kind of baked into the low end?

Randall W. Atkins — Founder, Executive Chairman, and Director

Yeah, so Dave, my strong admonition to the Board was that, "Gang we need more tons to sell." This is a rising market. We feel it's a strong market that's got some legs and we want to get as much production into that market as soon as we can. So, the constraint on the range is really more of a production-related issue, not a market one. We feel pretty good that if we had 2.4 million tons, we would be able to sell them this year. We had — frankly, we'd love to have more. But we're pretty comfortable on the marketing side of that.

David Gagliano — Analyst, BMO Capital Markets

Okay, perfect. Thanks.

Randall W. Atkins — Founder, Executive Chairman, and Director

You bet. Thanks, David.

Operator

That concludes that question-and-answer session of today's call. I would now like to turn the conference back to Randall Atkins, Chairman and CEO.

Randall W. Atkins — Founder, Executive Chairman, and Director

Okay. Thank you operator, and thanks again for everyone participating on this. We hope that all of us have a healthy, safe and prosperous New Year and we at Ramaco are looking forward to having this be perhaps one of, if not our best year. So, thanks very much again.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you for your participation. And have a wonderful day. You may all disconnect.