U.S. House of Representatives
Committee on Natural Resources
Washington, DC 20515

April 24, 2012

Mr. Gene Dodaro
Comptroller General
U.S. Government Accountability Office
441 G Street, N.W.
Washington, D.C 20548

Dear Mr. Dodaro:

As Ranking Member of the House Natural Resources Committee, which has jurisdiction over coal leasing, exploration and production on federal lands, I write to request a Government Accountability Office (GAO) report examining federal coal leasing practices.

Coal exports are rising as U.S. electricity producers move away from coal in favor of natural gas and renewable energy. Last year, 107 million tons of coal was exported, the highest export total in two decades and equal to 10 percent of domestic coal production. [1]Peabody Energy told investors last week that the country's coal export capacity could more than double in five years to 250 million tons.[2] Cloud Peak Energy, which has tripled its coal exports over the last three years to 4.7 million tons, now considers its export business so important that the company has added both foreign electricity markets and clean air regulations to its required securities disclosure on business risks.[3] With such rapid market changes taking place, American taxpayers must be assured they are receiving the full value for energy resources held in the public trust, especially when mining companies are seeking to export hundreds of millions of tons of coal for premium prices.[4]

[1] Brown, Matthew; *Associated Press*; "Coal Exports Surge to their Highest Levels since 1991," April 10, 2012: (http://www.google.com/hostednews/ap/article/ALeqM5gEPo52y3iAhPhyDU_Ir5N3pz6QZA?docId=b1e41839ca5f47e5a39e44aec019c633)
[2]Peabody Energy, "Peabody Energy Announces Results for the Quarter Ended March 31, 2012," April 19, 2012: (http://phx.corporate-ir.net/phoenix.zhtml?c=129849&p=irol-newsArticle_Print&ID=1684914&highlight)
[3] Cloud Peak Energy, Form 10-K; "Risks Related to our Business and Industry," Securities and Exchange Commission, February 17, 2012, p. 23: (http://sec.gov/Archives/edgar/data/1441849/000104746912001130/a2207159z10-k.htm)
[4] Gartrell, Peter T., Miller, John; "Peabody projections show lucrative Chinese market for PRB coal," *Platts Coal Trader*, December 6, 2010.

GAO has not conducted a comprehensive review of the federal coal leasing program since 1994.[5] Since that time, the coal industry has continued moving away from depleted coal reserves in the east, and increased its production from federally leased coal tracts in the west. Coal produced from federal leases has grown from less than 70 million tons in 1980 to more than 450 million tons in 2011. Federally leased coal now accounts for some 40 percent of U.S. coal production. Nearly nine out of every 10 tons of federally leased coal is mined in the Powder River Basin of Wyoming and Montana.

Companies mining federal leases in Wyoming and Montana are increasing coal exports not only because of declining U.S. demand but also because they can sell coal for higher prices in foreign markets. Arch Coal told investors last year that Powder River Basin coal sold to international customers could fetch more than $20 a ton.[6] By comparison, the company in 2012 contracted with mostly domestic buyers to sell coal from the basin for an average of $14.40 per ton.[7] This price is already well above what Arch Coal and other companies pay in federal lease sales. The highest price ever received by the federal government for a lease sale in the Powder River Basin was $1.10 per ton.[8]

Western coal producers in Wyoming, Montana, Colorado and Utah have signed agreements to export—or have already begun exporting—coal through existing terminals in Vancouver, British Columbia; Prince Rupert, British Columbia; Stockton, California; Richmond, California; Corpus Christi, Texas; New Orleans, Louisiana; and Superior, Wisconsin. U.S. producers increased shipments to Westshore Terminals, a Vancouver export coal facility, by more than 300 percent between 2009 and 2011. They have agreements to continue shipping coal to the facility through 2022.[9] In addition, multiple port projects are proposed along coasts and waterways in Oregon, Washington, Texas, Louisiana, Canada and Mexico—all potential outlets for coal produced from federal leases. Ambre Energy, an Australian firm that has bought coal mines in Montana and Wyoming, says it is "on track to becoming a major supplier of US thermal coal to international markets."[10] The company has applied to build two export facilities in Washington. The proposed facilities are among six in Washington and Oregon, which combined, could handle 145 million tons of coal bound for Asian markets—more than 15 percent of current U.S. coal production.

The rush to export coal comes shortly after a 2008 U.S. Geological Survey (U.S.G.S.) report reduced estimates of coal available for future mining.[11] The report found that technically

[5] "Federal Coal-Leasing Program Needs Strengthening," U.S. General Accounting Office; September, 1994: (http://gao.gov/assets/160/154629.pdf)
[6] Gartrell, Peter T.; "Arch CEO sees $20 range for PRB coal to Asia," *Platts Coal Trader*; January, 31, 2011.
[7] Arch Coal, Form 10-K, February 29, 2012: (http://sec.gov/Archives/edgar/data/1037676/000104746912001909/a2207536z10-k.htm)
[8] Bureau of Land Management, West Caballo LBA: (http://www.blm.gov/wy/st/en/programs/energy/Coal_Resources/PRB_Coal/lba/west_caballo.html)
[9] Westshore Terminals Investment Corporation, Annual Report 2011(http://www.westshore.com/pdf/finance/2011/ar.pdf)
[10] Ambre Energy, "US thermal coal strategy," accessed April 19, 2012: http://ambreenergy.com/projects/us-thermal-coal-production
[11] Luppens, J. A., Scott, D. C., Haacke, J. E., Osmonson, L. M., Rohrbacher, T. J., and Ellis, M. S., 2008, *Assessment of Coal Geology, Resources, and Reserves in the Gillette Coalfield, Powder River Basin, Wyoming: U.S. Geological Survey Open-File Report 2008-1202*, 127 p.: (http://pubs.usgs.gov/of/2008/1202/pdf/ofr2008-1202.pdf)

recoverable reserves[12] make up 47 percent of the remaining coal in the Powder River Basin, while economically recoverable reserves[13] account for just 6 percent or 10.1 billion tons. That means there is less than 25 years of supply in the area based on current production and consumption levels. The study's results led Peabody Energy to review its economic assumptions about mining in the basin, while one of the study's authors said "we really can't say we're the Saudi Arabia of coal anymore."[14]

Such sweeping changes to the marketplace underscore the need for more information about the Bureau of Land Management's (BLM) leasing program. The BLM is responsible for coal leasing on approximately 570 million acres of land, as set out by the Federal Coal Leasing Amendments Act of 1976. A coal lease is awarded to the highest bidder provided that the applicant's offer meets or exceeds BLM's estimate of the "fair market value" for the tract being auctioned.[15] The agency's regulations allow two ways for selecting tracts of land to auction: (1) regional leasing in which BLM selects tracts within a region, and (2) leasing by application in which coal companies nominate tracts, subject to BLM approval. In 1990, the BLM disbanded the last of six federally designated "coal production regions" due to declining interest in coal leasing and poor coal market conditions.[16] Since that time, coal production from federal leases has increased 78 percent, peaking at over 511 million tons in 2004, according to BLM data. More than 8.4 billion tons of coal has been mined from federal coal tracts during the same period and the number of active coal leases managed by BLM has tripled to more than 300.

We lack information about how the rapid growth of coal mining on federal land combined with shrinking reserves and increasing exports produced from federal leases affect the value of U.S. coal. The House Natural Resources Committee has an interest in ensuring that BLM's leasing process promotes competition for coal tracts and that the "fair market value" established by BLM is accurate. I therefore ask GAO to examine the following:

1. National trends in coal production since the disbanding of the federal coal regions, including the number of "lease by application" requests, the number of bidders on each of those requests, and the amount of coal and royalties generated from those leases;

2. Processes followed by BLM to estimate and get the fair market value for leases of coal produced from federal lands, including what factors it considers in its calculation;

3. Whether BLM's fair-market-value estimates adequately accounts for revised reserve estimates and increased coal exports to foreign markets where prices are higher; and

[12] Technically recoverable reserves are energy resources that can be extracted using currently available technology with no regard to cost
[13] Economically recoverable reserves are energy resources that are technically feasible to extract at a reasonable rate of return
[14] Smith, Rebecca; "U.S. Foresees a Thinner Cushion of Coal," *Wall Street Journal*, June 8, 2009: http://online.wsj.com/article/SB124414770220386457.html
[15] 43 CFR 3400.0-5(n) defines fair market value as the price "for which in all probability the coal deposit would be sold or leased by a knowledgeable owner willing but not obligated to sell or lease to a knowledgeable purchaser who desires but is not obligated to buy or lease."
[16] http://blogs.wvgazette.com/coaltattoo/2011/02/11/powder-river-basin-not-a-coal-producing-region/

4. BLM's system for tracking and making publicly available information pertaining to sales, payments and other data related to coal production from federal leases.

Please contact Morgan Gray (morgan.gray@mail.house.gov or 202-225-6065) of the Committee on Natural Resources Democratic Staff to discuss in detail the specific scope of work and establish a timeline for completion. Thank you for your consideration and attention to this request.

Sincerely,

Edward J. Markey

Edward J. Markey
Ranking Member
Committee on Natural Resources