United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

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Memorandum

To: Executive Secretary

(SGD) WILLIAM P. PENDLEY

From: Deputy Assistant Secretary for Energy and Minerals

Subject: Powder River Coal Leasing Target Decision

The attached decision sheet records our vote to support the highest possible level of leasing in the 1982 Powder River regional coal lease sale. We take this position to enable the market place to function efficiently and to encourage competition in this the most critical coal production region in the Nation.

Unfortunately, the Powder River Leasing Target Secretarial Issue Document (SID), by linking leasing levels to degrees of socioeconomic and environmental impacts, falls into the trap of equating the leasing of Federal coal with actual mining. Under the fundamental laws of supply and demand, no more coal will be mined than can be successfully marketed and sold. Furthermore, two recent studies by ICF (for the Council on Wage and Price Stability) and the U.S. Geological Survey conclude that the costs to society of underleasing far outweigh the costs of overleasing.

Our objective should be to lease more than enough coal to allow the states, industry, and the market place to function freely. "Excess" leasing neither degrades the environment nor creates community impacts. The deliberate or unconcious constraint on the market by withholding Federal coal-and especially low cost coal - can have serious economic consequences.

<u>Perceived Impacts of the High Alternative</u>

The SID asserts that 10 of the 18 tracts proposed for leasing in the highest leasing level alternative would result in new mining operations. An independent analysis prepared in Wyoming suggests, however, that perhaps five or more of these tracts, although logical mining units in and of themselves, can be more accurately categorized as <u>extensions</u> to existing operations. This fact is important given that development of new mines causes significantly greater environmental and socioeconomic disturbance than facility extensions.

Overall, the SID correctly notes that the impacts of leasing and developing all 18 tracts would cause only a 20 to 25 percent higher impact level than the "no-action" alternative (Option 1). Compared to the Regional Coal Team's (RCT) recommendation of 1.4 to 1.5 billion tons, however, the highest possible level of leasing would generate only about 10 percent greater impact using the baseline assumption in the SID of 371 million tons' annual Powder River Basin coal production by 1990.

By erroneously relating increases in coal leasing with increased coal mining on a ton-for-ton basis, the SID entirely glosses over the market place's response to an aggressive Federal leasing initiative. The 18 tracts available for leasing in 1982 have passed through rigorous unsuitability and coal economics screens during land use planning. The 58 existing undeveloped Federal leases and 67 preference right lease applications (PRLA's) in the region have not been screened, however. It is safe to assume that restrictions on new leasing in 1982 will trigger development of some existing leases or PRLA's that either contain higher cost coal with inflationary impacts to consumers, or present serious environmental problems. If new leasing is not constrained, however, the market place will naturally select for production those tracts that can be mined at the lowest economic, social, and environmental cost.

Flaws in the Baseline and Leasing Target Analysis

The SID makes a very tenuous assumption concerning the 67 PRLA's in the Powder River Basin. For purposes of environmental analysis, these PRLA's correctly have been assumed to contribute 45.6 million annual tons of production by 1990. The Powder River regional environmental impact statement, in assessing possible "worst case" environmental effects, must assume that each and every PRLA will pass the commercial quantities test. On the other hand, assuming these PRLA's will all contribute coal by 1990 in arriving at a a leasing target ignores the reality that many of these PRLA's contain marginally economic coal with poor access to markets and/or unfavorable stripping ratios.

If ample Federal coal is leased in 1982 and another large tonnage sale offered as followup in 1984, PRLA's will likely contribute no significant production in the Powder River region by 1990. Deducting the 40 million tons of assumed preferenc right lease production from the 371 million-ton baseline in the SID, the leasing target would double to 80 mill tons, using the same Department of Energy (DOE) "hi production goal as a yardstick of demand. This level roughly equals the highest level of 19 (89 million tons) that could be expected tons in 1982. Allowing for uncertainties regarding equipment availability, permitting, and lead time, the 2.5 billion ton alternative arguably would just satisfy 1990 demand for Federal coal in the Powder River Basin.

Additional uncertainty in the leasing target analysis arises from use of the DOE high level 1990 coal production goal. The DOE goal did not factor in potential exports of Powder River coal in projecting demand. Although lower in heating value and thus relatively less attractive for export than midwestern and Appalachian coal, Powder River coal can be mined and delivered to the Great Lakes at very competitive prices. We think it reasonable to expect some export development by 1990.

Unanswered Questions

The SID fails to discuss either the importance of stringent diligent development requirements to which new leases are subject to, or the relationship of diligence to the 58 existing leases in the Powder River region. The Secretary's decision on leasing must be viewed in the context of statutory and regulatory diligence obligations lessees must fulfil to hold Federal leases.

A passing reference on page one of the SID refers to the fact that 24 tracts containing an estimated 7 billion tons of recoverable coal were originally delineated by the RCT. It is disturbing that no explanation is given for dropping six of the 24 tracts, and there is no indication of what ranking basis was used if the tracts were postponed for leasing rather than eliminated from further consideration. The SID gives the impression that leasing and development of the five Montana tracts near Ashland would cause a disproportionate amount of harmful socioeconomic effects on that community. If this is the case, the apparently unilateral (or at best unexplained) decision to drop out significant coal tonnages on tracts limits the Secretary's discretion to select and lease the best tracts and still provide more than enough coal to clear the market. While it may be too late to correct this flaw, it serves as an important reminder that the RCT should make a conscious effort to delineate and rank far more tracts than will actually be needed.

On a technical point, the inclusion of a map in the SID would have been extremely helpful. Such a map, in addition to showing tract locations and oil and gas fields and pipelines, could also have assisted in demonstrating the interrelationships among Federal, private, and State coal in Powder River.

Summary

Energy and Minerals advocates the selection of option six in the SID calling for leasing 18 tracts containing 2.5 billion tons of Federal coal for 1982 sales in the Powder River region of Wyoming and Montana. The following factors support this recommendation:

- This option would provide sufficient low-cost coal to allow the market place to function efficiently
- Uncertainties in the baseline analysis - particularly the assumptions regarding issuance and development of all 67 PRLA's - could result in a serious understatement of the need for new Federal leasing.
- A likelihood exists that even the DOE high production goal underestimates demand.
- The number of truly competitive tracts (those that will result in new mines, as opposed to mine extensions) is probably significantly smaller than the 10 estimated in the SID.

Attachment

cc:
Secy's file
Secy's reading file (2)
ASEM (2)
DAS-EM
Strasfogel Chron

AStrasfogel:pmp:5-21-81:x.38804