POWDER RIVER BASIN COAL: 
How the Dirtiest Fossil Fuel is sticking it to U.S. Taxpayers (Again)

Straddling Montana and Wyoming sits the Powder River Basin, the largest minable coal reserve in the nation and the epicenter of where dirty energy and bureaucratic management collide. For more than two decades, mining in the Powder River Basin has been home to the fleecing of U.S. taxpayers by a handful of predatory coal companies to the tune of $30 billion.

Coal is the dirtiest fossil fuel there is, by far. Despite its steady decline, coal remains the largest source of climate pollution in the country. For decades American families have subsidized the price of burning dirty coal with sacrifice to their health, climate, and recently discovered, their wallets. Nearly half of the nation’s coal extraction comes from the Powder River Basin (PRB), the source of 13 percent of U.S. greenhouse gas emissions. Over 80 percent of the PRB sits on federal land, which means any revenue stemming from its leasing belongs to the U.S. taxpayer. In 2012 it was discovered that the federal agency responsible for ensuring a fair-market value for publicly owned coal has quietly enabled a few companies to engage in a decades-long pillage of the PRB, artificially driving down the true cost of coal throughout the nation, including places like Appalachia.

LEASING & COAL ROYALTIES 101
It is the responsibility of the U.S. Department of the Interior (DOI) and its Bureau of Land Management (BLM) to lease and control all coal leases on federal lands. The BLM administers 14 million acres of public surface lands and mineral estates on private lands in the PRB. In 1976, Congress passed the Federal Coal Leasing Amendment Act, requiring the BLM to ensure maximum economic recovery of federal coal resources.

LEASING ON PUBLIC LANDS
The BLM is charged with setting up coal auctions, and under obligation to the American taxpayer, they must ensure a fair price is offered. Only when the competing bids have reached the point of “fair market value” should the BLM distribute a lease to the highest-bidding coal company. The problem is, for decades only a select few coal companies ever bid on coal leases, and the BLM has continually failed to enforce a fair market threshold. In fact, the coal company monopoly is so strong in the Powder River Basin, that more than 80% of all leases in the last 20 years received only one bid, and never has a coal lease received more than two bids. As of 2009, only three leases are considered “competitive” since the “Lease by Application” began in 1990: Thundercloud, North Jacobs Ranch, and West Roundup. Worse, the BLM allows coal companies to expand their lease holdings by nearly 1,000 acres with no
competitive bidding, and little oversight. The bureaucratic mismanagement surfaced when the report revealed the bureau’s approval of 45 such leases since 2000 without proper documentation, costing the government $60 million by undervaluing lease modifications. This takes into account the steep monetary loss to taxpayers, with just a minor undervaluation costing taxpayers millions. 8 Coal companies have regularly submitted bids for 90 cents per ton, and as recently as 2012 have been granted bids so low as $1.11 per ton, including one lease awarded and granted to Peabody Energy for the control of the South Porcupine reserve. 9

CONTROLLING FEDERAL LEASES

Coal companies are expected to pay U.S. taxpayers a royalty of 12.5% of any coal sale that was mined on public lands, 10 and it’s up to the BLM to monitor the coal transactions and enforce the royalty payment rule. Coal companies have shirked this obligation by setting up subsidiaries, enabling coal companies to pay royalties based on cheap domestic sales to a subsidiary, while allowing the subsidiary to then sell the coal on the foreign market at a much higher price without additional royalty payments. This represents a huge loss to American taxpayers because coal companies can receive three times the profit from a coal sale on the foreign marked compared to the domestic market.

POLITICAL Fallout

In 2012, a study conducted by the Institute for Energy Economics and Financial Analysis revealed that faulty coal leasing practices had resulted in $30 billion in lost tax revenue over the past two decades. 11 The report set off a whirlwind of questions, and within months, Reuters had launched an investigation into the BLM’s coal royalties program, which uncovered serious flaws. The Reuters investigation found that the Interior Department has been working hand-in-hand with the world’s largest coal companies, Peabody Energy and Arch Coal, to ship U.S. coal overseas to China, South Korea, India and Japan, widening the American coal companies’ profit margin by dismissing royalties subsidized by American taxpayers. 12

Not long after, members of Congress led by Senators Ed Markey (D-MA) and Ron Wyden (D-OR) started demanding investigations of their own. In June of 2013, the Department of Interior’s Inspector General released a report on BLM’s coal leasing program, finding that seven coal leases were conducted since 2011 in the PRB. The report boldly stated, “Even a 1-cent-per-ton undervaluation in the fair market value could result in a $3 million revenue loss.” 13

ENVIRONMENTAL THREATS

These companies plan to use Washington D.C. lobbying 14 to build coal export facilities in Washington State and Oregon to ship out 100 million tons of taxpayer-subsidized coal every year. 15 If successful, the Northwest would become a conduit for coal, threatening the health, climate, and economies of communities from the mouth of the mine, along rail the Northwest rail lines, all the way to Asia. PRB coal burned abroad will return as mercury pollution in the air, fish, and water across the West Coast, but the damage doesn’t end there. A 2012 study revealed that if developed, the plan to ship PRB coal through Northwest ports to Asia could single handedly send us over the climate cliff, making it the number one most dangerous fossil fuel proposal in all of North America, and the fourth most dangerous in the world. 16

SOLUTIONS

Open and transparent evaluations will let U.S. residents know how expensive coal truly is and how much past undervalued coal leases have cost them. Until a thorough evaluation and long-overdue revamping of the BLM’s leasing program can be implemented, the Department of Interior must call a moratorium on coal leasing on all public lands. Any future coal profits should be invested in renewable, clean energy to improve our crumbling electrical grid, making America more energy independent and secure. Taxpayers are losing money, and the BLM can prevent that from happening by calling a timeout until it gets its house in order. Most of these mines have 5-10 years of existing coal reserves, which means a responsible suspension would not result in coal miners losing their jobs. BLM is in the process of approving 5 billion tons of PRB coal; putting a hold on these sales benefits everyone, except Big Coal. The Department of Interior and the BLM need to be accountable for its share of coal royalties and not brush coal companies in at the expense of the American taxpayers.

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- DOI 2013 Report
ENDNOTES