RELEASED

Further Action Needed On Recommendations For Improving The Administration Of Federal Coal-Leasing Program

Department of the Interior

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

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APRIL 28, 1975

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-169124

The Honorable John E. Moss
House of Representatives

Dear Mr. Moss:

In response to your request of March 26, 1974, and as agreed with your office, we are furnishing you with information on (1) actions taken by the Department of the Interior on the recommendations in our report entitled "Improvements Needed in Administration of Federal Coal-Leasing Program" (B-169124, March 29, 1972) and (2) the 15 companies which lease the largest amount of Federal coal lands and the number of acres leased by each.

In our 1972 report we made three recommendations to the Secretary of the Interior. At the time the report was issued, the Department was reviewing its coal-leasing program and said that it would consider our recommendations in its study. The Department has not been fully responsive to our recommendations and we are recommending to the Secretary of the Interior that further action be taken.

We have underway a self-initiated study of Federal leasing of energy resources on which we plan to issue one or more reports to the Congress which will contain conclusions and, where warranted, recommendations. This study includes coal leasing and in this letter, we will describe some of that work which covers issues raised by you or our March 1972 report. As these reports to the Congress are issued, we will be pleased to send you copies.

Specific comments on the status of our recommendations in our 1972 report, actions taken by the Department, problems we noted with the Department's short-term phase of the new coal-leasing policy, and information you requested regarding the 15 largest lease holders, are discussed below.

RECLAMATION GUIDELINES AND PROCEDURES

In our 1972 report we recommended that, to insure that lessees of Federal lands for mining of coal do an effective reclamation job, the Secretary of the Interior require the Department's Geological Survey to issue guidelines and

procedures for its regional mining supervisors to use in enforcing the 1951 reclamation and environmental requirements contained in most leases until the leases were adjusted to include the stronger reclamation and environmental requirements established in January 1969.

On May 19, 1972, Survey issued reclamation requirement guidelines to its mining supervisors to implement the above recommendation. The guidelines require all lessees who are planning to mine, or who are mining as of the date of the guidelines, to submit surface protection plans before beginning any earth-disturbing operations. These plans are required to be in narrative form, supplemented by adequate maps and are to cover at least the following points:

1. Topographic maps showing roads, areas to be mined, mine projections, waste disposal areas, and spoil piles.

2. Steps to be taken to prevent water and air pollution, to prevent land erosion, and to protect other natural resources.

3. How the lands will be reclaimed, including grading, contouring and sloping of spoil piles and highwalls to prevent public hazards, and for aesthetic purposes.

4. Type of revegetation proposed, and how it will be protected until it can become well established.

5. How the property will be abandoned, including the sealing of portals, removing surface structures, and cleaning up the area.

6. How waste and spoil dumps will be reclaimed to prevent potential public hazards and degradation of the lands and waters.

The mining supervisors were instructed that, before approving a plan, they were to consult with the land management agencies involved, such as the Bureau of Land Management, and the Forest Service, on the adequacy of the surface protection proposals. Also, the guidelines required that before abandonment of leases was approved, onsite inspections had to be made to determine whether the land was in suitable condition in accordance with the lease terms and regulations.

Survey statistics as of October 1974, show that there were 56 producing mines on Federal lands as of June 30, 1972, and that an additional 13 mines began producing after that date. These 69 mines were subject to Survey's May 19, 1972, reclamation requirement guidelines; however, as of October 1974, only 43 surface protection plans had been submitted. One mine was closed and reclamation work was completed in the fall of 1972. A Survey official said that the reasons the remaining 25 surface protection plans were not submitted were as follows:

Underground mines

a. For 20 mines, entry was made from an adjoining underground mine on privately owned land.

b. One mine was closed for over 2 years and as of October 1974 was being assigned to another company.

c. Three mines were old and operators reported no additional surface disturbance after the National Environmental Policy Act (42 U.S.C. 4321) became effective in 1969.

Surface mines

d. For one mine, the land is being reclaimed under State reclamation requirements which are stricter than Federal requirements.

A Survey official told us that the reclamation requirement guidelines were still in effect. Under the guidelines, Survey is responsible for insuring that exploration and mining operations comply with the approved surface protection plan. However, because in 25 instances Survey did not require lessees to submit surface protection plans, it does not know what reclamation actions the lessee intends to take, it does not know whether the planned actions are adequate, and it does not have a plan against which reclamation actions can be measured. The guidelines do not provide any exceptions to the requirement that surface protection plans be submitted.

Survey told us that plans were being requested for four of the mines (item c and d) and will be requested for another mine (item b) when reassignment is approved. However, there are no intentions to request plans on 20 mines (item a). In our opinion, surface damage could still occur

as a result of ground subsidence in the 20 underground mines where entry was made from adjoining underground mines on privately owned lands. Without a surface protection plan, Survey does not know what action the lessee intends to take to preclude the possibility of ground subsidence and to correct any surface damage which might occur.

In our report submitted to the Department for comments we recommended that the Geological Survey, in order to carry out its responsibilities under the reclamation requirement guidelines, be required to have all lessees submit surface protection plans. This recommendation was primarily directed toward those underground mines where Survey had not required a surface protection plan. The Department, in commenting on the above recommendation on February 18, 1975 (see app. II), stated that Survey would prepare guidelines which deal with surface subsidence. A Survey official said that the May 19, 1972, guidelines were applicable to surface mining; therefore, new guidelines were necessary. The official did not know when the guidelines would be complete.

Recommendation to the Secretary of the Interior

We recommend that the Geological Survey prepare and put into effect guidelines dealing with surface subsidence as soon as possible.

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As part of our self-initiated study, we are examining further whether environmental damage has resulted from coal exploration or mining activities and whether the Government has sufficient authority to take effective action. The study also covers Survey's monitoring of exploration and mining operations.

LIMITED MINING OPERATIONS

In our 1972 report we recommended that the Secretary consider discontinuing the practice of issuing leases for Federal lands that permitted lessees to defer or suspend mining operations by payment of a minimum royalty for 1 year in advance unless lessees could justify that development or operations should be deferred or suspended.

A stated goal of the Bureau of Land Management's coal-leasing program is to encourage timely and orderly development of coal deposits and to prevent speculative holding of

the reserves without development. The Department's regulations and its leases provide that operations under the leases be continuous except under certain circumstances, such as when operations are interrupted by strikes, the elements, or casualties not attributable to the lessee, or unless the lessee pays a minimum royalty for 1 year in advance, in which case operations may be suspended for that year.

The lessee is required to pay an annual rental on the leased lands which is credited against the royalties as they accrue. In those instances in which the lessee defers development or suspends mining operations, the minimum royalty payable by the lessee generally is equal to the annual rental on the leased lands. Therefore lease terms relating to diligent development and continued operation of a mine are negated merely by payment of the annual rental--an obligation which the lessee previously has assumed as a condition for obtaining the lease.

The Department had taken several coal-leasing actions since our report, including the issuance of a new coal-leasing policy with short-term actions providing for, among other things, mine development[1] to begin within 3 years on new leases issued, and the payment of advance royalties based on an estimate by Survey of production beginning in the sixth year of the lease whether or not there is production. However, these actions do not require coal production within a specified time nor a justification as to why development or operations should be deferred or suspended as we recommended in our 1972 report.

New coal leasing policy

After a coal-leasing study by the Bureau in 1970, the Department halted the issuance of coal leases and prospecting permits until it reassessed coal-leasing policies. On

[1]A Bureau official told us that mine development includes those actions which are necessary before production can begin. The Department's draft Environmental Impact Statement on coal leasing states that mine development begins after an economic coal deposit has been found and includes planning, construction of a road for access to the mine property, utility lines, a mine plant, and access to the coal deposit.

February 17, 1973, the Secretary announced a new coal-leasing policy providing for both short-term and long-range actions. The Department has not year approved the long-range phase of the coal-leasing policy but a Bureau official told us that the Secretary would probably announce the policy in April 1975.

The Department's short-term phase of the coal-leasing policy is a temporary operative measure until a long-range phase is announced. It provides that coal leases are to be issued when coal is needed by the applicant to maintain an existing mining operation or as a reserve for production in the near future. It also requires the applicant to demonstrate a need for the resources by showing that mine development will begin within 3 years.

The short-term phase of the coal-leasing policy also requires that all coal leases, renewals, and modifications include provisions for advance royalties. Such provisions provide for the payment of an advance royalty beginning in the sixth year of the lease, whether or not there is coal production on the lease. The advance royalty, whose purpose is to encourage lease development, is computed by Survey and based on an estimated number of tons of yearly production at the minimum royalty rates established in the lease for surface or underground mining methods.

Problems noted with the short-term phase of the new policy

The Mineral Leasing Act (30 U.S.C. 201(a)) authorizes the Secretary of the Interior to divide the Federal coal lands into leasing tracts which will permit the most economical mining of the coal in such tracts. The Secretary is further authorized, either on his own initiative or upon the request of any applicant, to offer such tracts or deposits of coal for leasing, and to award such leases by competitive bidding.

The Department's procedures under the short-term phase of the coal-leasing policy require that an applicant for a coal lease demonstrate a need for the coal resource and show that mine development will begin within 3 years. However, the Department's procedures do not require bidders, other than the applicant for the coal lease, to demonstrate a need for the coal. Their procedures state that when the high bidder is not the applicant, the lease will, nevertheless, be awarded to the highest bidder.

As of December 31, 1974, four leases had been issued since the short-term phase of the coal-leasing policy went into effect. One of the four leases was awarded to the highest bidder who was not the applicant for the coal lease and who did not demonstrate a need for the coal. Under these procedures, coal leases could be awarded to a lessee who did not have a need for the coal but who instead planned to hold the lease for speculative purposes.

The four new leases issued under the short-term phase of the policy also did not contain any requirement that mine development begin within 3 years as is required by that policy. Neither the short-term phase of the policy nor the four new leases provided any requirements as to when coal production should begin. As stated in our 1972 report, we believe that the Department should discontinue the practice of issuing leases that permit lessees to defer or suspend mining operations on Federal lands and instead insert requirements in the lease which require timely development and production.

Advance royalty provisions

On April 27, 1973, Survey instructed its Area and District Mining Supervisors that new leases should include revised rental and royalty rates, and provisions for advance royalty. Previously, lessees could defer or suspend mining operations by paying a minimum royalty, generally equal to the annual rental on the leased lands.

To illustrate the effect of the advance royalty provision as compared with provisions whereby a lessee could defer or suspend mining operations by paying a minimum royalty, we computed the cost of holding a lease for 20 years without production. The computation was based on royalty and rental provisions set forth in one of the new leases for a 241-acre tract issued under the short-term phase of the coal-leasing policy. The amount of the advance royalty payment each year was based on the estimated number of tons of yearly production at the minimum royalty rates established in the lease for underground mining.

Advance royalty provisions			Minimum royalty provisions		
Lease year	Type of payment	Amount per year	Lease year	Type of payment	Amount per year
1 to 5	Rental	$ 241	1 to 5	Rental	$ 241
6 to 10	Advance royalty	8,000	6 to 10	Rental	964
11 to 15	Advance royalty	18,000	11 to 15	Rental	964
16 to 20	Advance royalty	27,000	16 to 20	Rental	964

We have not evaluated the effect of the advance royalty provisions on lease development because none of the new leases is in its sixth year. Therefore we do not know what effect, if any, advance royalty provisions will have on encouraging production. Advance royalty provisions do not require that the lease be developed and operated.

We do not believe that the advance royalty provision will be fully responsive to our 1972 recommendation because there is no guarantee that the lease will be developed and operated.

Proposed coal-leasing regulations

On December 11, 1974, the Department published in the Federal Register proposed amendments to the regulations issued pursuant to the Mineral Leasing Act. The proposed amendments define such terms as "diligent development" and "continuous operation" and describe their application to coal leases. The amendments are not final because they may be modified as the result of written comments which were requested by the Department as of February 10, 1975. The Department expects to finalize the amendments by March 21, 1975.

In our report as submitted to the Department for comment in January 1975, as well as in our 1972 report, we recommended that the Secretary of the Interior consider discontinuing the practice of issuing coal leases that permitted lessees to defer or suspend mining operations on Federal lands unless lessees can justify that development or operations should be deferred or suspended. The

Department in commenting on our recommendation said that proposed coal-leasing regulations and advance royalty provisions will encourage timely development and production on existing and future Federal coal leases and will generally prevent lessees from indefinitely deferring or suspending mining operations on Federal lands.

We believe that the proposed regulations are a step in the right direction. However, they contain no provision whereby a lessee would be required to justify that development or operation should be deferred or suspended.

The proposed regulations provide that a coal lease be maintained only upon the conditions of diligent development and, when required by the lease or the Mining Supervisor, continuous operation of the mine. Diligent development means preparing to extract coal from a mine and includes such activities as environmental studies, geological studies, engineering feasibility studies, research on mining methods, contracting for purchase or lease of operating equipment, and development or construction work necessary to bring a mine into production.

Continuous operation has been defined in the regulations to mean extraction, processing, and marketing of coal in commercial quantities from a mine without interruptions totaling more than 6 months in any calendar year. The regulations point out that continuous operation is subject to certain exceptions contained in 30 U.S.C. 207 as follows:

> "Leases shall be for indeterminate periods upon condition of diligent development and continued operation of the mine or mines, except when such operation shall be interrupted by strikes, the elements, or casualties not attributable to the lessee * * *.
>
> "The Secretary of the Interior may, if in his judgement the public interest will be subserved thereby, in lieu of the provision herein contained requiring continuous operation of the mine or mines, provide in the lease for the payment of an annual advance royalty upon a minimum number of tons of coal, which in no case shall aggregate less than the amount of rentals herein provided for.

"He may permit suspension of operations under such lease for not to exceed six months at any one time when market conditions are such that the lease cannot be operated except at a loss."

The proposed coal-leasing regulations provide that a lease be diligently developed. However, the regulations, while stating that a lease be subject to continuous operations for more than 6 months in any calendar year, also state that continuous operations can be waived subject to 30 U.S.C. 207 by paying an annual advance royalty. The regulations also do not provide any requirements for justifying why a lease would not be subject to diligent development or continuous operation.

Recommendation to the Secretary of the Interior

We recommend that the Secretary of the Interior discontinue the practice of issuing coal leases that permit lessees to defer or suspend mining operation on Federal lands unless lessees can justify that development or operations should be deferred or suspended.

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We are further examining this area, as part of our self-initiated study, to determine production experience of coal leases and Federal efforts taken to encourage production, and the justification for extending leases and issuing new leases.

ADJUSTMENT OF LEASE TERMS

In our 1972 report we recommended that the Secretary initiate a study to determine the desirability of seeking a change in the law that would permit adjusting royalty rates and other lease terms more frequently than at 20-year intervals.

Hearings were held on March 9 and 27, 1973, and March 27, 29, and April 2, 1974, before the Senate Committee on Interior and Insular Affairs on legislation (S. 1040) proposed by the Department of the Interior as a result of our recommendation. That legislation would have permitted the adjustment of lease terms at the end of the primary term of 20 years and at the end of each 10-year period thereafter. The 93d Congress never enacted this legislation.

The Bureau of Land Management noted the following reasons for not adjusting coal-leasing terms before the initial 20-year period had expired.

--A leadtime of 8 to 10 years is usually required to put a coal lease into production once the decision has been made to mine a new property.

--If lease terms are adjusted too soon, the coal lessee will find it difficult to estimate costs and profitability over time. To reduce the 20-year primary term, greater risk would be added to the potential operation, making capital more difficult to acquire.

A Bureau official told us that there were no studies or documentation to support the above mentioned reasons. The Department, in its draft environmental impact statement on the proposed Federal coal-leasing program, stated that average leadtimes required for developing coal resources for the principal markets were as follows:

Principal coal market	Leadtime	
Local and export	5 years	Leadtime required to mine coal in a new mine.
Generation of electric power	8 years	Leadtime required from lease issuance until coal is needed to operate a new electric generation plant.
Manufacture of synthetic gas	10 years	Maximum leadtime required from lease issuance until synthetic gas plant is ready to operate.

Advance royalty provisions, which are required in all new and renewed leases under the Department's short-term phase of the coal-leasing policy, require that the lessee begin making royalty payments in the sixth year of the lease. We believe that the Department's decision to require royalty payments in the sixth year of the lease is reasonable in view of the average leadtime of 5 years that is required for development of a new coal mine.

In our 1972 report we made the following comments which pointed to a need for greater flexibility, other than at 20-year intervals, in adjusting lease terms.

--Provisions for restoring lands disturbed by mining operations established in January 1969 will not be incorporated into leases issued or adjusted before January 1969 until they have been adjusted at the end of 20-year periods.

--New rental rates and new methods of computing royalties established in February 1971 will not be incorporated into leases issued or adjusted before February 1971 until they have been adjusted at the end of 20-year periods.

We analyzed the 533 coal leases which were outstanding as of December 31, 1974, to determine the number of years the leases had to go before the lease terms could be adjusted by the Department. The following is the result of that analysis.

Number of years until adjustment	Number of leases	Percentage
none	14	3
1 to 5	64	12
6 to 10	160	30
11 to 15	237	44
16 and over	58	11
	533	100

As shown above the Department will have to wait many years before it can adjust lease terms on the vast majority of the leases for such matters as noted in our 1972 report. It is obvious that the Department's proposed adjustment of lease terms at the end of the primary term of 20 years for new leases and at the end of each 10-year period thereafter does not provide necessary flexibility, especially in rapidly changing times.

In our report submitted to the Department for comment we recommended that the Secretary of the Interior should reconsider his position and seek a change in the law that

would, for future leases, permit adjusting lease terms more frequently than at the end of the primary 20-year term. The Department, in commenting on our recommendation, repeated its arguments pertaining to financial matters by stating that a 20-year lease period provides the lessee some security of investment and aids in acquiring venture capital.

The Department also stated that ad valorum royalty provisions and environmental regulations allow the Government greater flexibility to adjust lease terms. A Survey official explained that ad valorum or percentage royalty provisions provides some flexibility in that the Government is not locked in to a royalty based on a fixed amount per ton of coal for a 20-year period. Instead, with a percentage royalty provision, as the price of coal increases or decreases, royalty income to the Government also increases or decreases. While we agree that this method of computing royalties does provide some flexibility as to the amount of royalty income the Government receives, it provides no flexibility for changing the percentage royalty rate or the method of computing the royalty.

The Survey official also explained that environmental regulations are more flexible today since they can be made applicable to existing leases. For example, he cited proposed regulations dealing with coal mining operations, including environmental safeguards, which were published in the Federal Register on January 30, 1975, and which provide for application to existing leases. We believe that, to the extent new environmental regulations are made applicable to existing leases, greater flexibility is provided to the Government in that it does not have to wait until the end of the lease term of 20 years to make environmental changes to the lease.

The Department made no mention of rental rates. We believe, however, that the Government has no flexibility to change rental rates except at the end of the 20-year lease term.

Recommendation to the Secretary of the Interior

We recommend that the Secretary of the Interior reconsider his position and seek a change in the law that would, for future leases, permit adjusting lease terms more frequently than after a 20-year primary term.

TERMS AND CONDITIONS NOT BEING ADJUSTED UNDER THE SHORT-TERM PHASE OF THE COAL-LEASING POLICY

Thirteen coal leases came due for term adjustments from the time that the short-term phase of the coal-leasing policy went into effect on February 17, 1973, through October 1, 1974. Under the Mineral Leasing Act, coal leases are issued for indeterminate periods, subject at 20-year intervals to such term adjustments and conditions as the Secretary may require.

A Survey official said that Survey reviews all leases before term adjustment and has been recommending to the Bureau of Land Management that the new advance royalty provisions and the royalty provisions established in February 1971 be included in the lease terms. Since the short-term phase of the coal-leasing policy went into effect, however, the Bureau has been holding such adjustment of terms and conditions in abeyance until a new long-range phase of the coal-leasing policy is developed. Therefore, the 13 leases were continued under their original terms.

Four of the 13 leases were producing; however, royalty provisions were not changed to a percentage of the gross value of the product produced but were still based on a flat number of cents per ton. As of October 1, 1974, the four leases had been continued past their 20-year terms for periods ranging from 1 to 14 months.

Failure to promptly change the method of computing royalty rates from a flat number of cents per ton to a percentage of the gross value of the product produced results in reduced royalty income to the Government as previously noted in our March 1972 report.

Nine of the thirteen leases were nonproducing; however, provisions which allow a lessee to suspend development work or mining operations upon payment of a minimum royalty for 1 year in advance were not eliminated. A Bureau official told us that the nine nonproducing leases could not be canceled if the lessee was paying the minimum royalty. As of October 1, 1974, the nine leases had been continued past their 20-year terms for periods ranging from 2 to 17 months.

In our 1972 report we stated that, although the termination of some nonproductive leases would result in a loss of rental revenue, we believed that the mere leasing of

Federal lands was not accomplishing the objective of the leasing program or the intent of the authorizing legislation which is to promote coal mining.

An official of the Department's Solicitor's Office was of the opinion that the Department could still adjust the lease terms and conditions even though the leases have gone beyond their 20-year terms. He also believed that the Department could have changed the royalty provisions in the leases at the end of their 20-year terms and could make other changes in terms and conditions at a later date, as long as this stipulation was made known to the lessee in writing.

In our report submitted to the Department for comments we recommended that, when a lease comes due for renewal, the Secretary of the Interior should require the Bureau of Land Management to promptly renegotiate lease terms, delete terms from the lease which provide for suspending operations by paying a royalty on minimum production, and include other terms in the lease which would provide that the lease be terminated if timely development is not accomplished.

We do not believe the Department has been fully responsive to this recommendation. The Department states that leases now up for renegotiation will be subject to the proposed diligent development regulations and to advance royalty provisions; however, the leases will not be renegotiated until a final environmental impact statement is prepared. A Department official stated that the environmental impact statement was expected to be completed in April 1975.

Our point, however, is that a lease should be renegotiated promptly. If a lease is producing, failure to adjust the method of computing royalty rates from a flat number of cents per ton to a percentage of the gross value of the product produced, results in reduced royalty income to the Government. If a lease is not producing, the Department of the Interior is taking no action to encourage production. A Bureau official told us that the Department probably could renegotiate the leases that are due to be renegotiated right now without waiting until the final environmental impact statement is prepared.

Recommendation to the Secretary of the Interior

We recommend that, when a lease comes due for renewal, the Secretary of the Interior should require the Bureau to

promptly renegotiate lease terms, delete terms from the lease which provide for suspending operations by paying a royalty on minimum production, and include other terms in the lease which would provide that the lease be terminated if timely development is not accomplished.

ADDITIONAL GAO WORK ON COAL LEASING

Our self-initiated study will cover other issues including

--the adequacy of the Department's data and analysis for making leasing decisions,

--the reasons for nonproduction, and an evaluation of lease requirements, monitoring procedures and enforcement actions to encourage diligent production and prevent waste, and

--the Department's policy on new leases and lease extensions to those operations having a high incidence of nonproduction on existing leases.

As stated earlier, after we complete this study, we plan to issue a report to the Congress on this matter and we will be pleased to send you a copy.

FIFTEEN LARGEST ACREAGE HOLDERS OF FEDERAL COAL LEASES

As of December 31, 1974, there were 533 Federal coal leases on about 785,000 acres of land in 15 states. This represented less than 1 percent of the total potential Federal coal lands. The 15 largest acreage holders of Federal coal leases held 247 leases involving 453,015 acres or about 46 percent of all leases and 58 percent of all acres leased.

During calendar year 1974, coal production on all Federal coal leases amounted to 22,336,500 tons. During calendar year 1974, 8 of the 15 companies produced about 7 million tons of coal or about 31 percent of total production, and the remaining 7 companies produced no coal.

We found that 4 of the 15 largest acreage holders of Federal coal leases were oil companies or were controlled by oil companies. These four companies held 7.5 percent of the total number of leases and 13.3 percent of the total acres leased. During calendar year 1974 two of these four

companies--Consolidation Coal and Atlantic Richfield--produced 148,585 tons of coal or 0.7 percent of total production, and the remaining two companies produced no coal.

The above information, together with the names of the 15 largest acreage holders of Federal coal leases, is presented in Appendix I.

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We invite your attention to the fact that this report contains recommendations to the Secretary of the Interior. As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House and Senate Committees on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report. As agreed with your office, we will make this report available to the Secretary of the Interior, the Office of Management and Budget, and the four committees one week from today to set in motion the requirements of section 236. We do not plan to distribute this report further unless you agree or publicly announce its contents.

Sincerely yours,

Comptroller General
of the United States

APPENDIX I

FIFTEEN LARGEST ACREAGE HOLDERS
OF FEDERAL COAL LEASES

Lessee (controlling company)	Number of leases	Acres leased	Calendar year 1974 production (tons)
Peabody Coal Co. (Kennecott Copper Corp.)	47	78,958.09	2,196,106
Consolidation Coal Co. (subsidiary of Continental Oil Co.)(note a)	30	54,825.07	14,298
Garland Coal Co.	26	43,832.86	120,159
Resources Co. (Arizona Public Service Co. and San Diego Gas and Electric Co.)	20	39,355.19	-
Pacific Power and Light	19	35,078.18	2,880,947
Kemmerer Coal Co. (Lincoln Corp.)(note a)	21	32,227.40	451,406
El Paso Natural Gas	15	27,018.72	-
Utah International	26	24,229.61	-
Richard D. Bass	1	20,700.71	-
Atlantic Richfield	6	19,185.98	134,287
United States Steel	17	17,886.54	810,849
Carter Oil Co. (subsidiary of Exxon Corp.)	3	15,490.50	-
Industrial Resources	6	14,929.33	-
Sun Oil Co.	1	14,679.90	-
Kaiser Steel (Kaiser Industries Corp.)	9	14,617.26	281,362
Total (15 largest acreage holders)	247 (46.3%)	453,015.34 (57.7%)	6,889,414 (30.8%)
Total of the 4 companies underlined above, which are oil companies or which are controlled by oil companies	40 (7.5%)	104,181.45 (13.3%)	148,585 (0.7%)
Total (all leases)	533	784,569.15	22,336,500

[a]Consolidation Coal Co. and Kemmerer Coal Co. jointly own on a 50-50 basis 10 coal leases in Utah involving 18,745.94 acres. For reporting purposes the number of leases and acres have been divided equally between the two companies.

APPENDIX II

United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

FEB 18 1975

Mr. Henry Eschwege
Director, Resources and
Economic Development Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

The Department has reviewed the draft report entitled "Inadequate Action on Recommendations for Improving the Administration of Federal Coal Leasing Program" and offers its comments on the recommendations made therein as follows:

Recommendation 1

As noted in the report, the Geological Survey has requested reclamation plans for mines where surface disturbance is contemplated. In the case of underground mines, where entry is made from an adjoining mine on privately owned land, the Geological Survey will prepare surface plan guidelines which take into account appropriate concern for current surface subsidence.

Recommendation 2

On December 6, 1974, the Department of the Interior proposed to amend coal leasing regulations to the Mineral Leasing Act of 1920. These amended regulations will define terms that heretofore have not been defined by regulation. A copy is enclosed. The thrust is to encourage production on leases prior to renegotiation at the expiration of the primary lease terms.

It is felt that these new diligence regulations, combined with advance cumulative royalties, will effectively encourage timely development and production on existing and all future mining units involving Federal coal leases.

Furthermore, these regulations, combined with advance cumulative royalties, will generally prevent lessees from indefinitely deferring or suspending mining operations on Federal lands.

Save Energy and You Serve America!

APPENDIX II

Recommendation 3

A period of 20 years until initial readjustment is required under the Mineral Leasing Act. In rapidly changing times this 20-year period provides some security of investment and aids in acquisition of venture capital. New ad valorum royalty provisions and environmental regulations allow the Government greater flexibility to adjust the lease terms according to changing conditions.

Recommendation 4

Leases up for renegotiation will be subject to the new diligent development regulations upon their finalization. The Department will also incorporate advance cumulative royalty provisions to the renegotiated leases, and both actions will encourage development of existing leases. All these actions are part of the Secretary's long-term coal leasing program. Under NEPA this program requires an environmental impact statement. The Department has prepared a draft and is completing a final EIS on the entire coal leasing program. Pending the outcome of this action, the leases now up for renegotiation will be processed.

Sincerely,

A L Reynolds

Director of Audit and Investigation

Enclosure

[illegible]
[illegible]