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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

ENERGY AND MINERALS
DIVISION

APRIL 2, 1981

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The Honorable James G. Watt
Secretary of the Interior

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Dear Mr. Secretary:

Subject: Questions Concerning Proposed Utah Power and Light Company Coal Lease Exchange (EMD-81-70)

As you know, we have been reviewing the proposed Utah Power and Light Company coal lease exchange--involving the relinquishment of preference right lease applications (PRLAs) for coal in southern Utah in return for coal leases in central Utah. We plan to have a draft report ready for the Department's review on this matter sometime in April. But, meanwhile, we understand you may be close to making a decision which could consummate such an exchange, perhaps even before our April draft. Thus, in advance of our draft report which will provide a full treatment of our evaluation, we would like to highlight some concerns we have about the desirability of making the exchange. Basically our concerns boil down to:

--A question concerning the validity of the PRLAs themselves.

--The lack of data, particularly on coal reserves, for making the required "equal value" determination.

--The effect giving over highly desirable coal lands in central Utah would have on opportunities for competitive leasing in that area.

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Most basically, we believe there is an unanswered question as to whether Utah Power and Light Company has a valid right to be issued a preference right lease--thus whether an exchange is even appropriate. This has never been resolved. The prior administration entered into an exchange agreement with the company and began its evaluation on the basis that this question did not need to be addressed because Congress authorized the exchange. However, the Congress expressed its intent that before accepting the PRLAs the Secretary would first "satisfy

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himself that the application and permit upon which it was based met all the requirements of the Mineral Leasing Act of 1920." Two of the eight prospecting permits for which Utah Power and Light Company submitted PRLAs are of questionable validity because the company did not have an approved prospecting permit at the time it did exploratory drilling. In addition, neither USGS nor BLM has confirmed whether the company has demonstrated the discovery of coal in commercial quantities in accordance with current regulations for all eight PRLAs--a prerequisite for issuance of preference right leases.

Secondly, there is a lack of data to make a realistic estimate of the coal reserves on the PRLA lands, thus making it impossible to make a valid "equal value" determination, as required by legislation authorizing the exchange. Reserve estimates made by USGS and Utah Power and Light Company differ by as much as 300 million tons. This data deficiency plus the absence of a valid basis for making transportation and marketing assumptions complicate any economic evaluation and fail to assure reasonable protection of the national interest.

Finally, consummation of the proposed exchange would result in leasing noncompetitively a prospectively highly competitive tract--North Horn Mountain. This tract is of known competitive interest to a number of companies and, in fact, comprises one of the larger areas of unmined coal on the Wasatch Plateau and would be the largest tract in Utah to be leased in a competitive sale planned for 1981. Offering the tract in a competitive sale would provide Utah Power and Light Company an opportunity to obtain it, while at the same time not denying other interested parties the same opportunity. In this way market forces would be allowed to operate more freely.

Assuming that Utah Power and Light Company has a valid right to be issued preference right leases, we believe viable alternatives exist for resolving the exchange issue. The obvious one is to simply issue the preference right leases--an action the company has been seeking for a number of years to the point of initiating a lawsuit against Interior to compel such issuance. An alternative is to give the company a certificate of bidding rights for use in a competitive lease sale in return for relinquishment of the PRLAs. The bidding rights would be based on the investment the company made in the PRLA lands when it drilled the lands in the early 1970s. This is a method the Congress has used in recent exchange legislation pertaining to the Northern Cheyenne Indian Reservation.

Our draft report will provide details concerning these issues, as well as focus on some of the management problems we have observed in the Department's handling of this particular

exchange--insights we believe will be useful to your administration in finding ways to handle future exchanges in an efficient and effective way.

Copies of this report are being sent to the Chairmen, House Committee on Interior and Insular Affairs and Senate Committee on Energy and Natural Resources, and other interested Committees.

Sincerely yours,

J. Dexter Peach
Director