Statement for the Record
Public Listening Sessions on Federal Coal Program
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Good afternoon, I am Hal Quinn, president and CEO of the National Mining Association (NMA). NMA is the national trade association representing the producers of most of the nation's coal, metals, industrial and agricultural minerals and manufacturers of mining and mineral processing machinery, equipment and supplies.

The invitation to the listening sessions suggests that major changes, including raising royalty rates, are necessary due to: (1) reports issued by the Government Accountability Office (GAO) and the Department's Office of Inspector General (OIG) and (2) concerns expressed by outside groups that royalty rates are too low and do not reflect current market conditions.

Neither is wholly supported by the facts. Start with the GAO and IG reports: both confirmed that the federal leasing program is sound and contributes substantial benefits to American taxpayers. While they offered modest recommendations for improvements, neither report called for wholesale revisions to the program nor do they address in any way royalty ***rates.*** As for those who suggest that current royalty rates do not reflect current market conditions, that may be so but not for the reasons they believe. In fact, current federal royalty rates are too high—not too low. Current royalty rates are above market and any increase in rates will reduce: production, investment, state and federal revenues, and the return to taxpayers.

- The federal royalty rate is above the prevailing royalty rates for private coal. As compared to private coal leases, especially in the East, federal coal rates are in many cases 40 percent higher than the prevailing rate for private coal.

  Federal lessees pay non-recoupable bonus bids, an additional upfront payment made prior to mining. Bonus bids are rarely if ever included in leases of private coal. Bonus bids are a significant expense. Over the last decade, lessees have paid over $4.2 billion in bonus bids before any coal is mined.

- The current royalty rate combined with the bonus bid imposes an effective rate of 22 percent on each ton of coal when considering recent prices for federal coal produced in the Powder River Basin.

- Combining royalty rate, bonus bid and just two of the many federal taxes and fees (e.g., the Abandoned Mine Land fee (AML) ($0.28/ton) and Black Lung Excise Tax ($0.55/ton)) puts a 30 percent federal burden on each ton of coal under prevailing prices for Powder River Coal

Increasing the royalty rates will not increase revenues, but will decrease the revenues accruing to the public. Increasing the cost of federal coal will back out federal coal from the market. A ton of coal never sold due to uncompetitive prices produces no revenue. For example, if the royalty rates were increased by 1 percent, the incremental revenue on a ton of PRB coal might be 10 cents. However, more likely than not, that cost increase will keep that ton of coal in the ground, sacrificing $1.31 in revenue from a ton sold under current rates.   That tradeoff hardly aligns with a goal of obtaining fair market value—it more nearly reflects a policy of foregoing any value.

Here are some additional factors BLM should consider:

- Most of the federal coal produced today is from the PRB which in turn provides the largest share of revenues. PRB coal competes in markets supplied by private leases that have lower royalty rates and no bonus bids.

- PRB coal is competing with coals from other regions where the coal has a higher heating or BTU value. And according to the EIA, transportation costs for PRB coal accounts for close to 60 percent of the delivered costs–substantially higher than the transportation costs from private coal leases located closer to the same markets. The combination of lower heating content and higher transportation costs present substantial competitive hurdles.

- Increasing royalty rates will only make federal coal less competitive over the longer term where prices are primarily driven by costs.

If the Department is interested in obtaining more revenue from the coal leasing program while protecting consumers from higher electricity rates, it should consider the following:

- Lower royalty rates that will keep federal coal competitive in the electricity sector market place. More sales even at lower royalty rates means more revenues. Lower sales under higher royalty rates means less revenue.

- Improve the efficiency of the federal coal leasing program.   Delays in the leasing process costs the public the time value of money in terms of both the bonus bids on deferred lease sales and royalties on deferred production.

Increases in coal prices induced by higher royalty rates will flow through to the electricity market. Whatever incremental revenue the Department believes it will obtain from such a policy will be at the expense of American businesses and families paying higher utility bills.

We have already seen a series of policies over the past several years designed to increase electricity prices and degrade the reliability of the nation's electricity supply by inducting the closure of coal base load power plants—the backbone of our electric grid. Next week, EPA is scheduled to release its final costly power plan rule that various studies conclude will impose double digit increases in electricity rates in 43 states.

A "win-win" for the American public would be policies that keep federal coal competitive in the market place. The result: more revenues from more production while maintaining low-cost reliable electricity for every American.