

Many factors account for Otter Creek coal prices

By MIKE DENNISON IR State Bureau | Posted: Friday, February 26, 2010 12:00 am |

Montana is preparing to lease its Otter Creek coal to mine developers for an upfront payment of 15 cents a ton — while recent coal leases in Wyoming have gone for six times that amount.

Is Montana giving away its coal at a bargain-basement price, as some claim?

State land officials say no, and note that the coal tracts leased in Wyoming are near existing mines, which have infrastructure like railroads, roads and power lines, thus making that coal more valuable to the developer.

By comparison, Montana's state-owned coal is in the undeveloped Otter Creek Valley, miles away from any other mine, and would require billions of dollars of investment to mine and transport the coal, they say. Otter Creek is 150 miles east of Billings, near the Northern Cheyenne Indian Reservation.

"Wyoming has infrastructure, railroads, mining equipment (in place)," says Mary Sexton, director of the state Department of Natural Resources and Conservation. "Otter Creek has no infrastructure, no transportation. That's the primary difference."

Still, Sexton says state land officials did consider the Wyoming leases prices, and therefore recommended an upfront bid higher than suggested by the state's appraisers, who said Otter Creek coal was worth 5 cents to 7 cents a ton.

U.S. Bureau of Land Management officials in Wyoming confirmed that its nine coal leases since September 2004 were tracts near or adjacent to existing mines, and were purchased by companies that operate those mines and plan to expand.

"Basically, all the infrastructure is in place," says Brenda Neuman, chief of the solid minerals branch for BLM in Wyoming. "They've been mining since 1980."

The upfront bid for these nine Wyoming tracts averaged 80 cents per ton, with a low of 30 cents and a high of 97 cents. The most recent tracts, leased in April 2008 and January 2009, went for 87 cents and 88 cents a ton, respectively.

The Wyoming leases totaled 2.6 billion tons of coal.

Montana is asking for a bid of at least 15 cents per ton for its 570 million tons of Otter Creek coal, which is interspersed with another 730 million tons of coal owned by Great Northern Properties, which last year leased its holdings to coal-mining giant Arch Coal, for 10 cents a ton.

The Montana Land Board this month lowered the minimum bid from 25 cents a ton, after Arch Coal sent a letter saying that price was too high. Arch was the only company to express interest in leasing Montana's coal by a Feb. 8 deadline.

The board set a deadline of March 16 for any bids at the new minimum price. Industry officials have said it will take years to permit and develop a mine at Otter Creek, if the coal is leased.

Opponents of leasing the Otter Creek coal still argue the state has underpriced it. They note that appraisers hired by the state looked at 10-year-old coal sales in Montana, while ignoring the more recent Wyoming data.

"The appraisal is deeply flawed in many, many ways," says Anne Hedges, program director for the Montana Environmental Information Center. "I think we should have started out at a far higher price than

25 cents (a ton). That was a bargain-basement price. I think these coal executives are just laughing at us."

The 2009 appraisal by Norwest Corp., an international consulting firm based in Salt Lake City and Calgary, Alberta, used three Montana sales of high-sodium coal as its main comparisons, from 1999, 2000 and 2007. Norwest didn't include the Wyoming leases in these comparisons.

Norwest also calculated the cost of developing a coal mine and building a railroad at Otter Creek and factored those costs into its recommended bid of 5 cents to 7 cents.

Hedges notes that the Land Board didn't use the appraised price, when setting the minimum bids at higher amounts: "What are they relying on? Right now, their decision is looking very arbitrary."

Sexton, however, says her agency did consider the Wyoming bids when recommending that the Land Board set an upfront bid higher than the appraisal, at anywhere from 10 cents to 35 cents a ton.

"We knew there were those sales in Wyoming that weren't used in the appraisal, that we thought maybe were worth a broader look at," she says. "We looked at a list of Wyoming sales, and the Land Board members had that."