

# Minerals industry may face fee hikes

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Under pressure to shore up federal budgets, the Obama administration has proposed several measures to speed up payments and increase processing fees on the minerals industry.

For example, a \$4,000 per well processing fee that originated in the Energy Policy Act of 2005 would swell to \$6,500 per well. Another proposal would strip away the industry's ability to deduct drilling and other intangible expenses.

On the coal front, there's a push to require that federal coal bonus bids be paid in lump-sum at the time of lease rather than the usual five-year payment plan.

In a letter to Congress this week, Independent Petroleum Association of Mountain States executive director Marc Smith said the measures are sold as an elimination of unnecessary subsidies. If enacted, the measures would severely cut available capital needed to continue to develop domestic energy resources, he said.

"That means less capital available to be put back into drilling more wells, developing American energy, creating jobs, and generating revenue for federal, state and local governments," Smith wrote to Congress.

In an address to the Petroleum Association of Wyoming this week, U.S. Sen. John Barrasso, R-Wyo., said he has argued against what's known as the application for permit to drill, or APD, filing fee hike from \$4,000 per well to \$6,500 per well. Barrasso added that the increase may not even go to cover costs associated with processing APDs.

## Coal bonus bids

A bonus bid is a per-ton price that coal companies offer in competition for the right to federal coal reserves in the Powder River Basin. Half of the revenue goes to the federal government and half is returned to the state where the coal is mined.

So far, bonus bids have been paid over a five-year period, allowing operators to begin production and gain cash flow to pay for the capital cost.

In the 1990s, federal coal leases fetched about 15 cents per ton and the state received annual bonus bid revenues of tens of millions of dollars. But as coal production has increased in the basin, so has competition to secure larger coal leases.

Bonus bids have approached \$1 per ton in recent years, yielding some \$425 million for state coffers in the 2005-06 fiscal year and \$355 million in the 2007-08 fiscal year, according to the state.

Some 4 billion tons of federal coal are currently under lease application in the Powder River Basin right now, according to the Bureau of Land Management. Even a modest-sized lease-by-application in the Powder River Basin can fetch a price of \$250 million.

In 2002, Kennecott Energy paid \$379.5 million for 537.5 million tons for a single LBA tract.

"Many companies wouldn't have that money to make a (lump-sum) payment. It's difficult enough to come up with that money over a five-year period," said Marion Loomis, executive director of the Wyoming Mining Association.

Other tax revenues come when the coal is actually mined. The county ad valorem tax is approximately 6 percent and the severance tax is 7 percent. Those are based on the assessed value of the coal, not the actual sale price, according to the Wyoming Mining Association.

Additionally, there is a federal mineral royalty tax of 12 percent based on the sale price of the coal. Half of that money comes back to the state as well. Mines also pay 35 cents per ton to the federal Abandoned Mine Lands Fund, half of which supposed to come back to Wyoming but typically does not.

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