

OTTER CREEK COAL

AN EXCUSE FOR A RAILROAD THAT MONTANA DOESN'T NEED



Northern Plains Resource Council's campaign to protect the water quality, family farms and ranches, and unique quality of life threatened by the unnecessary industrialization of eastern Montana's rural Tongue River Valley

Southeast of Ashland in Powder River County, the Otter Creek Coal Tracts contain more than 1.2 billion tons of coal. Half (about 9,000 acres) is on Montana school trust land, the other half is privately owned, mostly by Great Northern Properties. The federal government gave these coal tracts to Montana in the late 1990s as part of the agreement to retire hard rock mining claims of the proposed New World Mine just outside Yellowstone National Park. The federal government offered \$10 million to the state and, later, other land trade options – most of them near active coal-mining operations – because of the severe environmental consequences of mining the Otter Creek area and the lack of viable transportation for that coal. But, then-Governor Marc Racicot insisted on Otter Creek. In 2008, the State Land Board, which oversees school trust lands, hired Norwest Corporation of Salt Lake City to conduct an appraisal of its coal.

Look Before You Lease: Reasons for Caution

- **Who Does This Benefit?** A fundamental flaw of this appraisal is the assumption that what is good for coal speculators is good for the state of Montana. The economic analysis commissioned by Northern Plains (see reverse side) demonstrates that developing Otter Creek coal may benefit coal speculators, but it will impose numerous economic, social, and environmental costs, including the loss of coal mining jobs in southeast Montana.
- **The Existing Appraisal is a Flawed Document.** The appraisal itself is based on outdated information, simple calculation errors, and many flawed assumptions about the workings of the marketplace in coal.
- **Making an Irrevocable Decision Without Needed Information.** The Land Board's process has, so far, sidestepped needed environmental analysis that would allow the state to address this issue with a thorough understanding of its ramifications. An environmental impact statement serves a valuable "look before you leap" function that provides information needed to consider long-range impacts before making premature commitments to actions that may have serious long-term consequences. The time to study the impacts is before any lease is offered.
- **The Costly and Ill-Conceived Tongue River Railroad.** Developing the Otter Creek Coal Tracts will lead to the industrialization of the Tongue River Valley, including construction of the Tongue River Railroad. The TRR will cut ranches in half for 130 miles, taking land out of production permanently, complicating ranch operations, spreading weeds, starting fires and, in all likelihood, lowering property values. It will also displace railroad workers in Forsyth and Sheridan, Wyoming. The cost of building the railroad will significantly reduce any lease payments the state is able to capture for the coal.
- **Benefits to Schools are Speculative.** While coal mining is touted as a benefit to Montana schools, the true funding of public schools depends on decisions made by the Montana legislature. More money in the school trust fund does not translate into more funding of our schools.
- **Climate Change.** The close association of coal burning with climate change has affected the long-term future of coal, including access to investment capital. Meanwhile, carbon sequestration is still not a proven technology, and greenhouse gases will eventually face more restrictions.
- **Disruption of Wildlife Resources.** The Tongue River Valley is rich in wildlife resources, from large ungulates and other mammals, to birds (250 species), to smaller animals. The valley provides diverse habitat that will be severely and broken apart by the spider-web of roads, pipelines, and powerlines that will accompany industrial energy extraction and transportation.
- **Cultural Resources** – The Otter Creek area has historically been used by several Native American tribes, including the Northern Cheyenne and Crow. Rock art, tipi rings, and petroglyphs have been found. Some rock landforms are considered sacred sites.

ECONOMIST: OTTER CREEK COAL NOT VIABLE

An appraisal of the state-owned Otter Creek Coal Tracts done for the State Land Board is fundamentally flawed, according to an economic analysis by Dr. Tom Power, a research professor and professor emeritus in the Economics Department at the University of Montana, and his son, Donovan Power. It calls for the state to do a new appraisal because the appraisal is “incomplete, lacks foundation, contains major conceptual and factual errors, and has been outdated by changed economic circumstances.”

The Power analysis was commissioned by the Northern Plains Resource Council and the Natural Resources Defense Council.

The Power report finds many inaccurate assumptions about the value of the coal. Among the findings:

- If the state is to ensure it derives the maximum financial benefit from the Otter Creek coal, it picked the worst time to lease this coal because the price is at its lowest ebb in terms of value. This is poor public policy;
- The Otter Creek strip mine, as the state envisions it, would be twice as large as any mine currently in operation in Montana and could be leased without any consideration of the enormous environmental, social and economic impacts;
- Since there is such a limited market for Montana’s high-sodium coal, the mine would essentially displace existing southeastern Montana coal mines [resulting in enormous financial upheaval to miners and communities].

“The market Norwest expects to support the Otter Creek mine will first have to be taken from other Montana coal mines, ton for ton. As described by Norwest, this is a zero-sum game for Montana: Otter Creek coal can be sold only at the expense of other Montana coal producers. (Page 6).

This is one of the most severe failures of the Norwest appraisal. After admitting that the market for high-sodium coal (such as that mined in Montana’s portion of the Powder River Basin) is limited, the appraisal assumes this huge influx of new high-sodium coal into this limited market can happen without impacting overall coal prices. “That is not how markets work,” states the Power report.

The analysis points out that the proposed Tongue River Railroad that would have to be built to ship coal from the isolated Otter Creek tracts to markets in the Midwest and the Pacific Coast.

The Norwest appraisal a figure of \$187 million as the cost of building the railroad. However, promoters of the Tongue River Railroad recently have announced the proposed line from Miles City to Decker will now cost about \$600 million, more than three times the figure used by the Norwest appraisal. This higher cost will substantially reduce the amount Montana could expect in bids for the coal.

A more long-term impact would be that the Tongue River Railroad would improve Wyoming’s access to markets currently served by coal from southeast Montana, further exacerbating the market loss for southeast Montana’s coal mines.

The Full Report

Read the full Power analysis on Northern Plains’ website at www.northernplains.org. Under “Otter Creek Coal Tracts Analysis,” click on the Power report link.

On the next line you also can click to view Northern Plains’ letter to the State Land Board opposing the lease of Otter Creek coal.

The Norwest appraisal is built upon assumptions that will fall apart in the real world, including:

- The coal market is at its lowest in years, yet the appraisal reflects high 2008 prices. In addition, the appraisal is based on figures for much smaller transactions. Putting this much coal into the market would inevitably drive prices down.
- The Appraisal “assumes that Otter Creek coal would realize a mine-mouth price per ton that is almost twice the projected mine-mouth coal price for other Powder River Basin coal. This is an unlikely outcome of competition for market share.”
- The appraisal exaggerates the transportation distance savings that Otter Creek coal would have over Wyoming’s southern Powder River Basin coal. “Norwest puts this distance advantage as 372 miles when it is actually 208 miles, only about half of what the appraisal assumes.”
- The appraisal was based on data gathered before October 2008. “The dramatic changes in economic conditions since then render it an inappropriate guide to current coal markets.”

Finally, Power challenges the assumption that the money from state-owned coal would greatly benefit education in the state. In fact, State Land trusts account for only about 10 percent of the cost.

“Given that public education in Montana is primarily financed through local property taxes and a very diverse set of taxes that flow into the state government’s general fund, the primary focus of those concerned with school funding should be on expanding that tax base rather than on the possible earnings the State of Montana might receive from speculative mineral developments that could undermine the existing tax base along with local communities, schools, and families.” (Page 28)