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Federal Oil and Gas and Federal and Indian Coal Valuation

Comment On: ONRR-2017-0002-0001
Federal Oil and Gas and Federal and Indian Coal Valuation

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General Comment

Dear Office of Natural Resources Revenue,

Repeal of the 2017 Valuation Rule seems unwarranted given the short period it has been given to achieve its goals. If the rule is repealed, I hope the ONRR will replace it with an effective alternative.

Mineral extraction from federal lands is an attractive and potentially lucrative option for the American public, but only if that extraction is done safely and in accordance with free market pricing. I acknowledge that the ONRR may be responding to real fears about the productive use of federal lands. Katie Brown of the research group, Energy in Depth, said that many of the later regulatory efforts of the Obama Administration had a negative effect on production of mineral resources on federal lands. E&E News, "Interior Energy Rules Land in CRA Crosshairs" by Pamela King.

That being said, the ONRR valuation seems to be a poor target for repeal. The valuation rule was adopted after a 5-year rulemaking process and attempts to provide a mechanism for calculating royalties that better reflect changes in the oil, gas, and coal industries. The previous valuation method had been in place since the 1980s. Evidence in 2012 found that companies "were engaging in non-arms-length, also known as captive transactions, selling coal to their own subsidiaries at depressed prices to pay a lower royalty." Reuters, "Asia Coal Export Boom Brings No Bonus for U.S. Taxpayers, by Patrick Rucker. Data from the U.S. Energy Information Administration, the EIA, found that 42 percent of all coal produced in Wyoming in 2012 was sold through captive transactions. In 2013, all coal mined for export in Montana was sold through a captive transaction. <http://rulesatrisk.org/coal-valuation-rule/>. In short, the ONRR valuation was instituted to prevent self-dealing by energy companies on government lands at artificially low prices.

Federal lands should be managed on behalf of all Americans, and, accordingly, the resources extracted therefrom should be sold at market value. Oil rich tracts of land, like the Arctic National Wildlife Refuge, should not be used for commercial purposes unless companies are willing to pay market prices for the minerals found underneath the soil there. The valuation rule has hardly had the time to develop a track

record on which the public might judge its efficacy.

If the rule is to be replaced, in the name of productive use of federal lands, there should be a new rule that effectively protects the birthright of the American people. One research paper argued that Americans lost almost \$150 million annually under the previous regime in regards to coal alone. An Assessment of U.S. Federal Coal Royalties, Headwater Economics, Jan. 2015. I would ask only that a new regime, if one is to be instituted, should appropriately balance the interests of the American people with the interests of productivity. The valuation rule was the end result of a long and deliberative process, and should not be scrapped so close to its inception until a superior plan which remedies the issues of federal land use can be developed.

Sincerely,
Beau Baumann