

## APPENDIX A

# BACKGROUND: FEDERAL COAL LEASE OWNERSHIP AND SECTION 3 COMPLIANCE STATUS BY INDUSTRY

### METHODOLOGY AND INFORMATION SOURCES

OTA's analysis of coal lease ownership and section 3 compliance status is based on the information assembled for our 1981 report, *An Assessment of Development and Production Potential of Federal Coal Leases*. Since publication of that report, OTA's coal lease data and conclusions have been updated periodically using information from the Department of the Interior, State agencies, coal lessees, coal industry trade publications, and other sources. Aggregate information was generated from OTA's computerized coal lease data base which was created for this special report.

Coal lease ownership data for 1975 and 1980 were obtained from the 1981 OTA technical memorandum, *Patterns and Trends in Federal Coal Lease Ownership 1950-80*. The 1984 ownership information was assembled by OTA for this project. Corporate relationships for parent corporations, subsidiaries, and joint ventures were obtained from the lessee qualifications statements filed by lessees. Where that information was not sufficient, OTA consulted industry manuals and trade magazines, and contacted State corporation commissions and the lessees themselves to identify the controlling parties.

OTA determined the section 3 production deadlines for all pre-FCLAA coal leases using information on coal lease assignments and corporate ownership from OTA's coal lease data base and the coal lease ownership data base maintained by Western Network in Santa Fe, New Mexico. Information on lease assignments and ownership was gathered from Bureau of Land Management's coal lease records and corporate qualifications files and from State corporation commissioners and various business publications. In determining the production status of the pre-FCLAA leases, OTA relied on production and royalty information reports filed with the Interior Department and States and information from lessees.

### FEDERAL COAL LEASE OWNERSHIP 1985 BY INDUSTRY

OTA's industry categories were originally defined in 1980. Coal lessees are grouped into categories according to the principal business activity of the lessee's parent company. Each major industry category controlled a total of five percent or more of the land under lease at any time between 1950-80. This appendix provides an update of changes in leaseholdings by industry categories since publication of our 1981 report. These findings are summarized in Chapter 3.

Utilities. Electric utility companies continue to be the largest leaseholding category as they were in 1975. There has been little assignment activity and no corporate acquisitions involving utilities since passage of FCLAA. However, several utilities have transferred leases among subsidiaries or reorganized joint venture relationships.

In the mid-1970's nearly half of all coal mined from Federal lease tracts was produced by electric utilities even though they controlled only about one-fifth of all acreage under lease. Although utility coal production has jumped five fold in the past decade, in 1983, utility coal output accounted for just 20 percent of all Federal coal production.

“Other” Companies. Marking a longstanding trend toward the entry of more widely diversified companies into the western coal industry, companies classified in the “other” category now form the second largest lease holding business category. These companies represent a wide-ranging assortment of businesses such as: construction companies, railroads, as well as banks and a property management corporation owned by The Church of Jesus Christ of the Latter Day Saints.

Most of the leases in this category acquired during the last decade were obtained by their current owners through lease assignments. The largest assignment involved the transfer of 16 Utah leases from El Paso Natural Gas Company to Swanton Energy Resources Co., a subsidiary of a New York company, Swanton Corporation.

Companies in the “other” category produced only 10 percent of the coal mined from Federal lands in 1983, although they controlled about 20 percent of the acreage under lease. (See Tables 18 to 21 in Chapter 3.)

Major Oil Companies. Oil majors are now the third largest business largest category of Federal coal lessees; they were the second largest category in 1975. The drop in rank occurred despite the fact that total oil major lease holdings increased from 138,409 acres to 141,157 acres during the decade. If the holdings of another oil major CONOCO, now a subsidiary of DuPont, were included in this category rather than under non-resource related diversified companies, the oil majors would still be the second largest lease holding category in 1985.

Oil majors have been involved in 7 of the 16 corporate acquisitions completed since FCLAA. (See Table 17. ) Four of these acquisitions increased the holdings of oil majors, one resulted in a decrease, and two entailed no change.

Federal coal production by major oil companies has risen from 500,000 tons in 1972 to 45.1 million tons in 1983. Major oil companies produced over 40 percent of all Federal coal produced in 1983, more than twice as much Federal coal as any other industry group.

Nonresource-Related Diversified Companies Since 1975 nonresource-related diversified companies have more than quintupled their leaseholdings. This category consists mainly of large chemical and electrical equipment companies. Most of the increase in lease acreage resulted from the acquisition of Conoco, Inc. (with its subsidiary Consolidation Coal Co.) by DuPont. That acquisition more than offset the loss of leases from this industry category from the acquisition of Utah International, Inc. and most of its Federal coal lease holdings from General Electric Co. by Broken Hill Proprietary, Ltd., an Australian mining company. About 9 percent of all leased acreage is controlled by nonresource-related diversified companies.

Despite the major increase in lease acreage held by nonresource-related diversified companies during the last decade, these companies mined about 2 percent of the coal extracted from Federal land in 1983.

Oil and Gas Companies. Oil and gas companies held 70,365 acres of Federal land in 1984 compared to 42,193 acres in 1975. Its rank jumped from the ninth to the fifth largest lease holding business category. Coal production by oil and gas companies has increased from 200,000 tons in 1972 to 12.2 million tons in 1983, or about 11 percent of all the coal mined from leased lands.

Steel Companies. Steel companies holdings have increased their coal lease holdings only modestly since 1975. Two pending acquisitions, however, would greatly reduce steel company

holdings if they are completed. Perma Resources Corp. is currently in the process of acquiring Kaiser Steel Corp's western coal operations and Armco Steel Corp. has reportedly found a buyer for its subsidiary, Evans Coal Co.

Federal coal production by steel companies has been about 1.0 million tons per year during the past decade, but their share of total production has dropped from 7 percent in 1972 to 1 percent in 1983.

**Independent Coal Companies.** The amount of Federal leased acreage held by independent coal companies fell by 40 percent between 1975 and 1984. Coal companies have fallen in rank from the third to the seventh largest lease holding group. During the past decade, Energy Fuels, Swisher Coal, and Cambridge Mining have been acquired and many other independents have assigned their leases, thereby contributing to the decline of independent coal companies in the Federal coal leasing program.

Although production by independent coal companies has increased from 2.0 million tons in 1972 to 3.6 million tons in 1983, the percentage of total Federal coal production from independent coal operators fell from 20 percent to 3 percent. This pattern, too, is part of a long-term trend toward domination of the western coal industry by companies that are not primarily engaged in mining coal.

**Metals and Mining Companies.** The leased acreage held by metals and mining companies fell dramatically between 1975 and 1980 and then increased between 1980 and 1984. Both of these changes were largely the result of acquisitions involving Utah International, Inc. The first was Utah International's acquisition by General Electric Co. in 1976 and the second was the 1984 purchase of Utah International by Broken Hill Proprietary, Ltd., an Australian based mining company. Another addition came as a result of the acquisition of Midcontinent Limestone Co. by Pitkin Iron Corp.

Metals and mining companies have consistently produced more Federal coal than predicted by the size of their holdings. In 1983, they contributed 11 percent of the total Federal coal production, although they held only 4 percent of the acreage under lease.

**Natural Gas Companies.** Among the major changes in this category during the past decade were Internorth Corp.'s acquisition of Belco Petroleum Corp. Lease assignments more than offset the marked decrease that resulted from the transfer of 16 Utah leases from El Paso Natural Gas Co. to Swanton Energy Resources Corp. following El Paso's acquisition by Burlington Northern, a railroad company prohibited from holding Federal coal leases by section 2(c) of the MLA.

Natural gas companies lessees began producing coal in the late 1970's. In 1983, natural gas company mines contributed about 2 percent of the total Federal coal production.

**Peabody Coal Company.** Peabody Coal Company was acquired in July 1977 by the Peabody Holding Company from Kennecott Corp. Peabody Holding Company is currently owned by five companies. The companies and their ownership percent are:

Newmont Mining Corp.	32.5 percent
The Williams Companies	32.5 percent
Bechtel Corp.	15.0 percent
The Boeing Company	15.0 percent
Equitable Life Assurance	5.0 percent

In 1984, Fluor Corp. one of the six original participants in the Holding Company sold its 10 percent share to the others and dropped out of the venture.

In 1975 Peabody controlled 68,923 acres of Federal coal land, about 9 percent of all acreage under lease. Peabody has been actively selling off Federal coal leases for the past decade. In addition, the company has relinquished four pre-FCLAA leases and has applied to relinquish about one dozen more. As a result of these transactions Peabody now holds 20,382 acres or 2 percent of all Federal land under lease. In 1983, Peabody produced 1 percent of the coal mined on Federal land.

Individuals. Another longstanding trend that has continued during the past decade has been the decline in leaseholdings by unincorporated individuals. The leaseholdings have declined 70 percent since 1975. About 2 percent of Federal acreage under lease is now controlled by individuals. Individuals fell from the sixth to the eleventh largest lease holding group during the past decade.

Historically individuals were active in coal leasing in two ways. Some individuals acquired lands for small mining operations (many of the leases now held by individuals were mined in the past either by the lessee or a member of his/her family.) Other individuals acted as land agents, brokers, or speculators and acquired Federal leases for resale to others, often retaining an overriding royalty interest in the Federal coal lease. Many of the leases acquired by this latter group of individuals have been assigned to coal producing companies since 1975.

Coal production from Federal lease tracts held by individuals in 1983 was less than 100,000 tons, a negligible amount; in 1972, these leases contributed 3 percent of total Federal coal output.