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Interior Department Announces Initial Steps to Strengthen Federal Energy Valuation Rules, Expand Guidance on Federal Coal Program

Initiatives provide certainty, additional clarity for energy industry, and help ensure the collection of every dollar due to the American public

WASHINGTON, DC – The Department of the Interior today announced the release of a draft proposed federal regulation by the Office of Natural Resources Revenue (ONRR) governing the valuation of federal oil and gas, and federal and American Indian coal resources, as well as expanded guidance on the production of coal on public lands issued by the Bureau of Land Management (BLM). Both initiatives seek to provide greater clarity and certainty for the energy industry and are part of the Department’s larger effort to help ensure the American public receives every dollar due for domestic energy resources.

The current oil, gas and coal valuation regulations – originally put in place for natural gas and coal in the late 1980s – have not kept pace with the significant market changes that have occurred in the domestic natural gas and coal markets since that time. The existing federal oil valuation regulations are a decade old. The proposed draft regulation being released by ONRR today will update the regulations to help keep pace with modern technology and practices.

“Coal produced on public lands is an important part of our domestic energy portfolio, but we have an obligation – and we are fully committed – to ensure that the American taxpayer receives a fair return for the production of domestic energy resources,” said Deputy Secretary of the Interior Mike Connor. “The initial steps we are taking are part of the larger effort to strengthen the management of coal production on public lands by providing greater certainty and predictability to the industry and helping to protect American taxpayers. We look forward to receiving public comment on the draft proposal.”

Existing gas and coal valuation regulations may require an energy company to follow benchmarks when it sells its product to an affiliated company. The benchmarks for coal are applied sequentially and include such factors as comparable arm’s-length sales, prices reported to public utility commissions and the Federal Energy Regulatory Commission, other relevant matters and a netback calculation.

These benchmarks can be administratively burdensome to industry trying to report and pay proper royalties, and to regulators reviewing royalty payments for audit and compliance purposes. The proposed regulation aims to remedy this and other issues caused by outdated rules with more clear regulations that better reflect the changing energy industry, while protecting taxpayer and American Indian assets.

The BLM today is also sending updated guidance to the field that will help ensure a consistent and efficient coal lease sale process, increase clarity in determining fair market value and provide guidance on independent review of appraisal reports. The guidance will enable the Bureau to account for export potential through analysis of comparable sales and income.

The BLM coal program's revised manuals and handbooks are part of a suite of actions that the BLM has undertaken following the recommendations of a June 2013 audit by the Department of the Interior Office of Inspector General and a February 2014 Government Accountability Office report. Previous guidance has been issued regarding publicly available information such as the accepted fair market value and historical lease sale data, and not accepting coal lease bids below the pre-sale fair market value. Over the past two years, the BLM has developed new training programs for coal specialists and completed the first phase of a bureau-wide tracking system for coal inspections. The handbooks can be viewed [here](#). The manuals can be viewed [here](#).

The BLM has also released safety, inspection and enforcement guidance to promote more responsible development of coal resources on the nation's public lands, including: improved documentation for coal operation inspections on coal exploration licenses, licenses to mine, leases, and logical mining units; and increased Mineral Mine Inspector training and certification requirements.

The Consolidated Federal Oil & Gas and Federal & Indian Coal Valuation Reform rule will be published in the *Federal Register* on January 6, 2015, which initiates a 60-day public comment period. The notice will be available on the web at: www.regulations.gov.

Comments can be made on-line, by mail, or by hand-carrying documents:

- Electronically go to www.regulations.gov. In the entry titled "Enter Keyword or ID," enter "ONRR-2012-0004," then click "Search." Follow the instructions to submit public comments. ONRR will post all comments.
- Mail comments to Armand Southall, Regulatory Specialist, P.O. Box 25165, MS 61030A, Denver, Colorado 80225.
- Hand-carry comments, or use an overnight courier service, to the Office of Natural Resources Revenue, Building 85, Room A-614, Denver Federal Center, West 6th Ave. and Kipling St., Denver, Colorado 80225.

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