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### **Wishful Thinking about Montana Coal Development: The Otter Creek Tracts**

Because of the real and imagined role that gold and copper mining played in the original European settlement of Montana, mineral development still has a firm grip on the political psyche of Montanans. We recall the folk history of mining boomtowns and the many fortunes made there and carefully choose to forget the ghost towns and economic depression that soon replaced them. We imagine the boundless riches buried just below the surface and find it hard to turn away from that wealth even if the potential payoff is uncertain and the environmental damage significant. The mere possibility of wealth associated with mineral development is usually seen as an offer that is just too good to turn down. Wishful thinking clouds our judgment and we buy the equivalent of another lottery ticket or bet on another low probability horse race.

One mineral development in which the State of Montana will have a considerable say is the development of the coal deposits along the Tongue River in southeastern Montana, the Otter Creek coal deposits. Montana got ownership of that coal when a proposed gold mine on the edge of Yellowstone National Park was bought out by the federal government to protect the Park. Montana, always aggressively seeking access to federal largess, complained that Montana's economic development potential had been damaged by the loss of the gold mine and got the Otter Creek coal tracts as compensation. Since then the Montana state government under several governors have puzzled over what to do with that coal.

A recent appraisal of the state's interest in that coal concluded that if the state were to put the coal up for lease, it would get an upfront leasing bonus payment of almost \$40 million and then, over the 40 year life of the coal mines that would extract the coal, the state would also collect almost \$1.5 billion in royalty payments.

The State Land Board, which consists of all five of our officials who are elected statewide, including the Governor and the Superintendent of Public Instruction, now has to decide how to proceed. That Board is collecting citizen comments on the Appraisal through the end of this month and then will decide whether to proceed to offer that coal for lease, study the matter more carefully including doing an environmental impact statement, or simply put off a decision on leasing as it has done on other occasions.

The Otter Creek coal represents a good case study of why minerals in the ground do not always or even usually represent significant wealth. The Otter Creek coal has some attractive features. It lies close to the surface, allowing relatively cheap extraction. It is also relatively low in sulfur, allowing those who burn it to avoid costly treatment and pollution controls. The Otter Creek coal is also in a very isolated location with no way of shipping the coal to market. A costly railroad would have to be built through the Tongue River valley, taking ranch land and dividing ranches into pieces. The coal is also high in sodium that causes slag problems in boilers and pollution control devices. Only a small number of electric generators have boilers specifically designed to accommodate high sodium coal. So, the market for that coal is quite limited.

For Montana coal producers, this limited market for high sodium coal is a serious concern because most of that existing market is already being served by Montana

coalmines. To sell the Otter Creek coal, the developers will have to compete against the existing suppliers, namely those other Montana miners. What is gained by Otter Creek coal will be a loss to other Montana coal producers. That is not exactly a win-win state economic development strategy.

But the situation may be even worse than this. Most of Montana's coal is sold into the northern tier of upper Midwestern states, Minnesota, Wisconsin, Michigan, and Illinois, because Montana has a transportation cost advantage, including the use of the Great Lakes, relative to Wyoming in reaching these areas. Building the proposed Tongue River Railroad to access the Otter Creek coal could provide Wyoming with a transportation shortcut to sell its coal into what are currently Montana markets, again cutting into markets now served by Montana mines.

So, is the state-owned Otter Creek coal that almost lies on the surface begging to be taken, a valuable economic resource for the state? Or is it a threat to the existing coal mining industry in Eastern Montana? Is it a bonanza or a boondoggle? Is it worth strip mining and industrializing this isolated river valley, cutting up that ranch country to build what would be a coal railroad that could see thousands of coal cars pass per day? Should the State of Montana be dumping huge quantities of low-grade coal onto the market just as we as a nation take initial steps to regulate carbon in order to stabilize the planet's climate? Now that energy prices have tumbled away from their peaks and natural gas supplies look much more substantial than previously though, should we be counting on resurgence in the demand for high-carbon coal?

In thinking about these questions, Montana citizens and the Montana Land Board should keep in mind something that mineral rich states often ignore: Most of the earth's

mineral wealth, including most of America's coal, never gets developed because the costs are too high and the quality too low. All minerals in the ground do not represent wealth. Most of them represent unsustainable costs, both commercial and environmental. As a result those deposits will remain undeveloped in the centuries to come just as they did for centuries past. Government efforts directly or indirectly to subsidize the development of uneconomic mineral resources are more likely to impoverish us than to bring us prosperity.