

OFFICE OF SURFACE MINING



2003 Annual Report



TABLE OF CONTENTS

1	Introduction
2	Director's Letter
6	Abandoned Mine Land Reclamation
24	Regulation of Active Coal Mines
40	Technology Development and Transfer
52	Financial Management and Administration
60	Performance Goals and Results
66	Compliance with Legal and Financial Requirements
69	Discussion and Analysis of the Financial Statements
71	Consolidated Balance Sheets
72	Consolidated Statements of Net Cost
73	Consolidated Statements of Changes in Net Position
74	Combined Statements of Budgetary Resources
75	Consolidated Statements of Financing
76	Notes to Financial Statements
89	Supplementary Statements of Budgetary Resources by Major Budget Account
91	Independent Auditors' Opinion

The Office of Surface Mining is a bureau of the U.S. Department of the Interior with responsibility, in cooperation with the states and Indian tribes, to protect citizens and the environment during coal mining and reclamation, and to reclaim mines abandoned before 1977.



INTRODUCTION

This report describes the operations of the Interior Department's Office of Surface Mining for the period October 1, 2002 through September 30, 2003 (Fiscal Year 2003)¹. This year the Interior Department established an accelerated reporting deadline of November 15, 2003. To meet the 2003 accelerated reporting schedule, some state program performance information was collected for the nine-month period of October 1, 2002 - June 30, 2003, and estimates were prepared for the last quarter in order to provide full-year data. All estimated statistics in the text and tables were calculated with the same methodology² and are clearly identified and footnoted.

This report was compiled to meet the specific requirements of Section 706 of the Surface Mining Law³ and Section 306 of the Chief Financial Officers Act of 1990, and includes a summary of results required by the Government Performance and Results Act. Included in the report are activities carried out under several parts of the Law: Title IV, Abandoned Mine Reclamation; Title V, Control of the Environmental Impacts of Surface Coal Mining; and Title VII, Administrative and Miscellaneous Provisions. Surface Mining Law responsibilities of other bureaus and agencies have been omitted because they are reported directly to Congress by the agencies responsible. Those responsibilities include Title III, State Mining and Mineral Resources and Research Institutes program, which was administered by the now abolished U.S. Bureau of Mines; Titles VIII and IX, the University Coal Research Laboratories and the Energy Resource Graduate Fellowships, which are administered by the Secretary of Energy; and Section 406, the Rural Abandoned Mine Program (RAMP)⁴ which is administered by the Secretary of Agriculture.

To allow comparison of statistics from year to year this report contains updated tabular data corresponding to that found in annual reports prepared since 1988. Also, it is organized in sections that correspond to the two principal activities performed by the Office of Surface Mining in implementing the Surface Mining Law -- abandoned mine land reclamation and regulation of active coal mines -- and two supporting activities -- technology development and transfer, and financial management and administration.

Principal distribution of this report is in electronic format. It is available on the Office of Surface Mining web site (www.osmre.gov/annualreport.htm) and CD-ROM. The CD contains all Office of Surface Mining Annual Reports (1978-2003), and a 15-minute video showing award winning reclamation. In addition, active web links to more detailed information are available when using the electronic version of the report. Printed copies of this Annual Report are also available and will be distributed to the public upon request.

For information about Office of Surface Mining activities, news releases, publications, or to request printed copies of this report, visit the Office of Surface Mining web site at www.osmre.gov or contact:

Office of Surface Mining
1951 Constitution Ave., NW.
Washington, D.C. 20240
(202) 208-2719
e-mail: getinfo@osmre.gov

(Cover photo and left) Mining from 1990 to 2000 at this Alabama mine site was not easy. Approximately 700 acres (65 percent) of the land contained abandoned mine problems, a sizable stream and habitat for the flattened musk turtle-- an endangered species--crisscrossed the area, and four cemeteries were located on the property. With mining and reclamation complete the site is a rich wetland and a pastoral landscape that is even more diverse than the surrounding unmined areas. More than 50 acres of wetlands were developed, \$1,750,000 of potential abandoned mine reclamation funding was saved, over 10,000 feet of stream successfully reclaimed, and all the cemeteries mined-around and integrated back into the landscape. This is mining and reclamation that is better than the architects of the Surface Mining Law envisioned.

1. Throughout this document "2003" refers to Fiscal Year 2003 (10/1/02 - 9/30/03) unless otherwise noted.

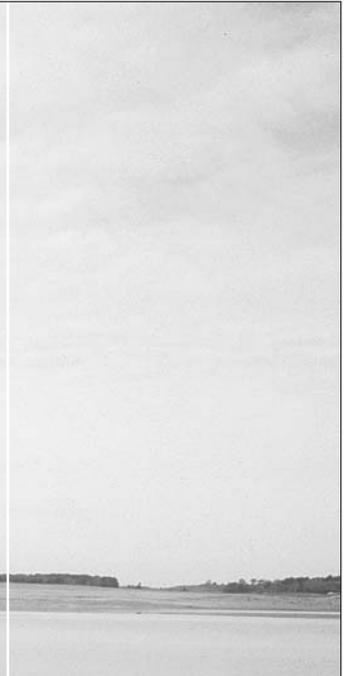
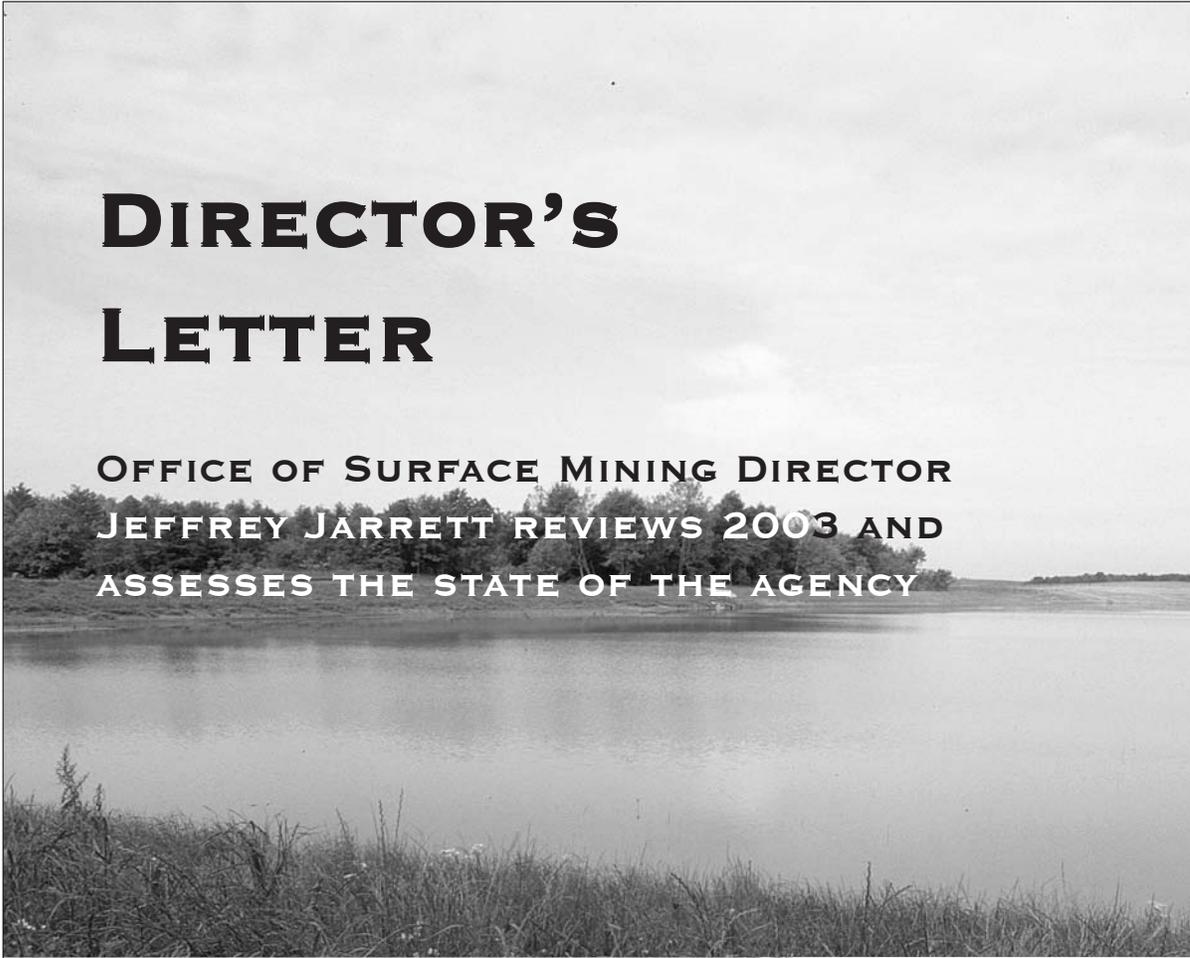
2. For those states where fourth quarter estimates were calculated, the 2003 totals are a combination of actual data collected for the first three quarters of fiscal year 2003 (10/1/02 - 6/30/03), and estimated fourth quarter data. Fourth quarter estimates are based on detailed annual state data for the past four years, i.e. 1999 - 2002. The ratio of change for each variable from 1999 to 2002 was calculated and serves as a proxy for the change from 2002 to 2003. This ratio applied to the 2002 actual annual data is the estimated annual change. Since estimates were needed for only one quarter, and not the entire year, only 25 percent of the estimated annual change was combined with the actual data.

3. Public Law 95-87, Surface Mining Control and Reclamation Act of 1977 (SMCRA).

4. Administered by the Natural Resources Conservation Service (formerly the Soil Conservation Service) under the U.S. Department of Agriculture. The Rural Abandoned Mine Program is primarily aimed at addressing health, safety, and environmental problems posed by surface mining operations in rural areas. A total of \$196 million has been appropriated from the Abandoned Mine Land Fund for this program; however, no funds have been appropriated since 1995.

DIRECTOR'S LETTER

OFFICE OF SURFACE MINING DIRECTOR
JEFFREY JARRETT REVIEWS 2003 AND
ASSESSES THE STATE OF THE AGENCY



Each year when the Office of Surface Mining Director provides this message in the Annual Report it usually summarizes progress of the principal activities. However, for 2003 I would like to change the focus and emphasize some of the achievements and progress I think are most important.

Coal plays a vital part in providing energy for our nation today and in addressing our energy needs in the future.

Coal generates more than 50 percent of America's electricity and 40 percent Worldwide. It makes up approximately 95 percent of America's fossil energy reserves. The U. S. Department of Energy estimates our nation's recoverable coal reserves at nearly 296 billion tons — enough to last almost 300 years.

The President has made securing our future energy needs a top priority, so coal can be expected to continue to be an important part of America's energy strategy for a long time.

President Bush and Secretary of the Interior Gale Norton are also committed to protecting the health and safety of the people who live in the coal fields.

The Office of Surface Mining has responsibility for providing a means to balance those two priorities. For over 26 years the Office of Surface Mining has provided states and Indian tribes with the means to repair the damage caused by past mining practices, set standards for reclamation by current mining operations, and protect the health and safety of the residents of the coal fields.

As you will find in the report that follows, the dedicated men and women of the Office of Surface Mining have accomplished many significant achievements in 2003. Through consultation, cooperation, and communication - all in the service of conservation, the Office of Surface Mining has not only continued to fulfill its statutory assignment, but serves as a leader in citizen-centered and results-oriented government.

“Partner of the Year”

In March the Office of Surface Mining was named “Agency Partner of the Year” by Black Diamond Resource Conservation and Development, Inc., a Southwestern Virginia community group. The Office of Surface Mining went on to take the Outstanding Sponsor Achievement Award at the state and regional levels.

Black Diamond Resource Conservation and Development, Inc. recognized the Office of Surface Mining “for its innovation and spirit, its outreach and team building and its commitment to local partnerships.” I believe the award nomination has contributed to “bringing cleaner water and community revitalization to the region.”

(Left) Historic coal mining had created continuous downstream flooding in the Cypress Creek watershed, north of Boonville, Indiana. Farmers had crop losses, the city's waste water treatment plant was frequently flooded, and roads were often not passable. The spirit of cooperation that existed between the company, local and state government, and the citizens during the formulation of this project illustrates what can be accomplished when everyone works together...just like good neighbors. Working with local landowners and the community the coal company created a permanent 45-acre wetland that also serves as a flood retention basin which prevents the downstream flooding. Boonville citizens now have a wetland resource and flooding has been eliminated.

Good Neighbors are good business

This year the Office of Surface Mining presented its inaugural “Good Neighbor Awards” to recognize three coal operators for their outstanding cooperative efforts in working with their communities.

We created these awards to honor coal operators for exemplary interaction, communication, and involvement with the surrounding land owners and local community. Establishment of good working relations and interaction with mine neighbors is an important element of the Surface Mining Law that mine operators are achieving in many different ways.

Being a good corporate neighbor doesn’t just mean buying computers for the schools or buying a big ad in the high school homecoming program. It means recognizing the concerns of your neighbors and developing an interest in cooperatively solving the problems they have.

Software solution to acid drainage cost projections

The Office of Surface Mining won one of Secretary Norton’s 4Cs Awards for its work in cooperation with the Pennsylvania and West Virginia Departments of Environmental Protection to jointly develop a computer program called “AMDTreat” that estimates the capital and annual costs to abate acid mine discharges.

AMDTreat provides states, the industry, watershed groups and the public with a means to evaluate the long-term economics of various treatment options.

In the first three months after the release of AMDTreat, its website recorded more than 150,000 hits and generated over 500 written requests for the software. Requests for the software have originated from 18 states and 16 foreign countries.

During 2003, we also took several important steps to bring about what I believe the states, citizens and the industry are all looking for, stability. Our stakeholders need to know that when we make a decision or a regulation, that it will be durable, that they can make their plans based on the assumption that they know where we stand today and tomorrow and next week. I have made achieving stability one of the Office of Surface Mining’s over-arching goals for 2004 and beyond.

Regulatory Stability

Achieving regulatory stability is an important initial step. If we can achieve regulatory stability, then coal mining operators will know what is expected of them and they can plan their future operations accordingly. Communities and citizens also will know what is intended by the regulation, what protections they can expect from their government and how they can participate in the regulatory process.

We have carefully reviewed and analyzed our list of rules in development and focused our efforts around those rules that are necessary to fix a real, on the ground problem. Our new approach to rulemaking relies heavily on nationwide rulemaking teams composed of subject matter experts. The lead for each rulemaking is located in the region where the

issue being dealt with is most prominent. The regulations which are currently under development will promote practices which minimize or mitigate environmental damage while maintaining coal production.

Abandoned Mine Land Fee reauthorization

Another key area that we intend to bring stability to is the Abandoned Mine Land Program. We recognized early that if the Abandoned Mine Land reclamation fee is allowed to expire as scheduled in September, 2004, millions of citizens in the coalfields would still face a future that includes hazards created by unreclaimed highwalls, dangerous water impoundments, mine fires, and other problems that continue to exist nearly three decades after the Surface Mining Law was passed.

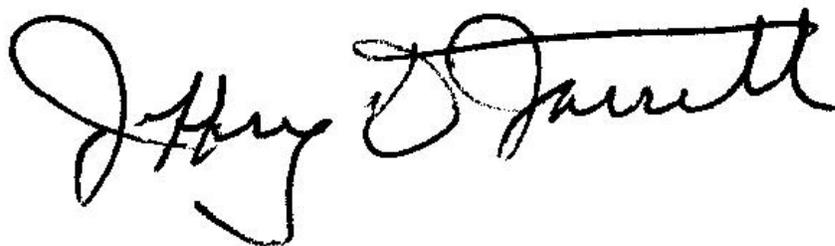
Over \$3.5 billion is still needed to remove the health and safety hazards endangering the lives and physical well being of the citizens in the coalfields. In fact, the Office of Surface Mining released a study this year estimating that more than 3.5 million Americans live less than a mile from health and safety hazards created by abandoned coal mines; nearly 1.2 million of them live less than half a mile from dangerous high-priority hazards.

Throughout this year, we have undertaken extensive efforts to educate Congress, the Administration, coal industry, environmentalists, state and tribal governments, and other interested parties on the issues surrounding the reauthorization of the fee.

When President Bush released his FY 2004 budget proposal this year he called for the reauthorization of the Office of Surface Mining's authority to collect the fees that make up the Abandoned Mine Land fund.

We are committed to reauthorizing the Abandoned Mine Land fee – and doing it in a way that makes the Abandoned Mine Land program more effective and efficient and which addresses the current statutory allocation formula that results in a progressive distribution of resources away from the most serious abandoned mine land problems.

Reauthorization of the Abandoned Mine Land fee collection authority is but one of the many challenges that face us in the months ahead. However, every challenge brings yet another opportunity to demonstrate the remarkable success and innovation of the Surface Mining Law. The Office of Surface Mining looks forward to consulting, cooperating, and communicating with all stakeholders of the Surface Mining Law as we restore abandoned mine lands and secure our Nation's energy future through the safe and environmentally sound production of coal.

A handwritten signature in black ink, reading "Jeffrey D. Jarrett". The signature is written in a cursive style with a large, prominent initial "J".