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United States Department of the Interior

BUREAU OF LAND MANAGEMENT
Utah State Office
P.O. Box 45155
Salt Lake City, UT 84145-0155

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FEB 13 1998
DIV. OF OIL, GAS & MINING

FEB 11 1998

In Reply Refer To:
3485
U-017354
(UT-932)

Mr. Lowell Braxton, Director
Utah Division of Oil, Gas and Mining
P.O. Box 145801
Salt Lake City, Utah 84114-5801

~~Route to~~ 2/18/98
#2
then file ACT/007/001
Copy

~~Dear Mr. Braxton:~~ Lowell

Enclosed are the recommendations of the Price Coal Office concerning a royalty rate reduction application filed by White Oak Mining and Construction Company and a memorandum to our Washington Office concerning the recommendations.

Please review the enclosed documents and submit any recommendations or concerns to Max Nielson at 539-4038, as soon as possible.

Douglas M. Koza

Douglas M. Koza
Deputy State Director,
Natural Resources

Enclosures
1. Memorandum (2pp)
2. Price Coal Office Recommendations (9pp)

United States Department of the Interior

BUREAU OF LAND MANAGEMENT
UTAH STATE OFFICE
P.O. Box 45155
Salt Lake City, Utah 84145-0155

3485
(U-930)
U-017354

FEB 1 1 1998

Memorandum

To: Director, (300), MIB, Room 5627

From: Deputy State Director, Natural Resources

Subject: Review and Recommendation Concerning Royalty Rate Reduction Application for Coal, White Oak Mining and Construction Co.

White Oak Mining filed application in July 1997 for a royalty reduction (RR) on 4 Federal coal leases in the vicinity of the White Oak Mine Complex in Carbon County, Utah. The application mentions the application is under the Category 1 (Expanded Recovery) royalty reduction guidelines. They are asking for royalty reduction from 8 percent to 5 percent. The mine has operated since 1974 with the current owners having taken over the operation in 1993. The mine is one of three coal mines in Utah being all Continuous Miner (CM) operations. Mine production from 1994 to 1996 was in the 1 million ton range but adverse mining conditions in 1996 and 1997 reduced production eventually resulting in one CM unit being idled and 60 employees being laid off.

The Price Field Office has completed a review of the application and provided a recommendation to approve a royalty rate reduction from 8 percent to 5 percent for mined coal in one Federal lease (U-17354). The State Office concurs with this recommendation and submits it for your consideration.

For your review of the application, I am attaching the following:

- Copy of the Royalty Reduction Application.
- Detailed review of the application by the BLM Price Field Office.
- Economic analysis of the impact from approving RR for U-17354.

The outcome of this analysis and your review is of vital concern to the company so I would appreciate hearing from you on this matter as soon as possible. If you have any questions, please contact Max Nielson at 801-539-4038.

/s/ Douglas M. Koza

Attachments:

- RR application
- Field report
- Economic analysis

United States Department of the Interior

BUREAU OF LAND MANAGEMENT

Price Field Office
125 South 600 West
Price, Utah 84501

3485
U-017354
(UT-066)

January 26, 1998

Memorandum

To: State Director, Utah (UT-921) 2/3/98

From: Field Office Manager

Subject: Royalty Rate Reduction Application for White Oak Mining and Construction Company on Federal Coal Leases

This office has been asked to give recommendations regarding the subject royalty rate reduction application. We have reviewed the application and have made further inquires and inspections of the mine to verify the conditions. Attached is a copy of the Geologic and Engineering Report prepared in this office that documents our review and recommendations.

White Oak's application was submitted under Category 1. (a) in accordance with the Bureau of Land Management's Royalty Rate Reduction Guidelines for Solid Leasable Minerals. A lessee qualifies for a royalty rate reduction under this category when: adverse geologic and engineering conditions make the solid leasable mineral resources identified in the application economically unrecoverable at the lease royalty rate using current standard industry operating practices. White Oak's application makes a secondary reference to Category 1. (b) of the guidelines for which a lessee qualifies when: the lease royalty rate makes the solid leasable mineral resources identified in the application likely to be bypassed because they are less economically recoverable than resources on non-Federal leases that are part of the near term mining sequence within the same operation.

A royalty rate reduction from 8 percent to 5 percent of the selling price of the coal is proposed for all Federal leases in the White Oak Mine Complex, namely UTU-70018, U-017354, U-067498 and sublease U-044076. White Oak claims a royalty reduction for the duration of the production from these leases will encourage the greatest ultimate recovery of the resource and is in the interest of the conservation of the resource.

Our analysis in the Geologic and Engineering Report concludes that adverse geologic and engineering conditions exist in lease U-017354 in the current mining area and should persist in the southern area of the lease. A lease modification was recently granted to add 160 acres to this lease. The area of lease modification is in the projected adverse mining condition area. We recommend that the royalty reduction apply to this lease modification area. It is our recommendation that the royalty rate for the other leases in the mine area remain at 8 percent.

The other areas of the mine do not have the same adverse conditions or the conditions are not known. Further information would need to be submitted for a determination to be made as detailed in the attached report.

We conclude that the whole of Federal coal lease U-017354, including the recently modified parcel, meets the criteria for a royalty rate reduction under Category 1. (a), with secondary consideration for Category 1. (b) under expanded recovery. Therefore, we recommend that White Oak be granted a royalty rate reduction for this lease from 8 percent to 5 percent. This royalty rate should become effective on the date that a complete application was submitted (July 18, 1997) and should remain in effect until the lease is completely mined out or until the adverse conditions no longer exist. The royalty rate for the other leases in the mine area should remain at 8 percent until further information is provided which warrants a reduction.

If you have any questions regarding our evaluation of the subject royalty rate reduction application, please contact Stephen Falk at this office.

Richard C. Manus

Attachment
Geologic and Engineering Report

GEOLOGIC AND ENGINEERING REPORT

FEDERAL ROYALTY RATE REDUCTION APPLICATION

WHITE OAK MINING AND CONSTRUCTION CO.

Prepared By:
Price Field Office
Bureau of Land Management

Introduction

White Oak Mining and Construction Company (White Oak) has applied for a Federal royalty rate reduction for existing Federal coal leases UTU-70018, U-017354, U-067498, and sublease U-044076, all part of the White Oak Mine Complex. The application was received on July 18, 1997, with a request for a reduction of royalty from 8 to 5 percent under Category 1, Expanded Recovery, from the Royalty Rate Reduction Guidelines based on conservation of the resource and increased recovery of the coal. The request is for all the leases for the duration of their production. This report analyzes the conditions at the mine and recommends action on the application.

Background

The White Oak Mine complex is located in Whisky Canyon, a south tributary of Eccles Canyon, three miles south of the town of Scofield, Utah. The mine operates in two coal seams accessed by drifts at the outcrop in Whisky Canyon. Mining in the Upper O'Connor Seam is in the White Oak #1 Mine and mining in the Lower O'Connor Seam is in the White Oak #2 Mine. The property consists of all or parts of three Federal leases and some private coal. Mining began in 1976 under Valley Camp of Utah, Inc. In February of 1993, Valley Camp closed the mine, citing uneconomic mining conditions and loss of contracts after a couple of years of sporadic shutdowns and reductions in force. In September of 1993, White Oak bought the property and reopened the mine soon thereafter. Mining has continued since that time under an approved mining and reclamation plan, with the associated resource recovery and protection plan. Mining has been concentrated in the lower seam (Mine #2) since the time of acquisition and much of the northern part of the mine is mined out. All mining is now concentrated on extending working in the lower mine to the south. Mining conditions have deteriorated and production rates have decreased in this south area. A number of faults have been encountered. Reductions in force through this year has reduced the work force from around 110 employees to near 60 employees. This is the status of the mine at the this time.

The BLM has inspected the mine on a number of occasions and has evaluated the proposal. Our evaluation follows:

Geologic Setting

The White Oak Mine is situated along the west slope of Pleasant Valley in the Wasatch Plateau coal field. Pleasant Valley extends from Scofield Reservoir to the north to the town of Clear Creek to the south, the valley being the graben of the Pleasant Valley Fault zone. Coalbeds outcrop on these west slopes in the Blackhawk Formation of late Cretaceous Age. The sandstones and shale of this formation were deposited as part of a continental-marginal marine depositional system and contains several coalbeds in the area. Two beds are considered minable--the Upper O'Conner and Lower O'Conner. Both these beds have thicknesses of greater that 15 feet in much of the mine area, though both thin to the south and the lower bed splits to the southwest. Interburden ranges from 100 feet in the north to less that 30 feet to the south.

Adverse Mining Conditions

The structure of the coal block, where mining first began in the north end of the property, dictated mining in a south-west direction to parallel the two large faults, the Connelville Fault to the west, and the O'Conner Fault to the east. As mining progressed south of a prominent igneous dike and crossed the lease line into U-017354, a number of small north-south faults were encountered. These faults appear to be a series of sympathetic faults creating a number of horst-graben structures that begin south of the dike and increase in displacement to the south. The orientation of these faults are offset of the Connelville and O'Conner Faults so that the development mining has intersected them at oblique angles. This results in mining entries in the fault zone for some distances for the entire entry system to cross the fault. Mining conditions in the fault zone are poor as the zone is often fractured and filled with gouge.

White Oak has been mining south in the #2 mine in the lower seam since they bought the property in 1993. After mining through the dike and developing south, six different faults have been crossed. Displacements of the faults have ranged from 2 feet up to 30 feet. These areas are numbered on the attached mine map. All areas have been inspected by BLM engineers, with the mining conditions verified. Without exception, White Oak has had to install additional roof support devises and structures to stabilize the roof while crossing the fault zone, some of the items being large I-beams and steel set arches.

Other problems are evident in this southern area. The lower mine (#2 in the Lower O'Conner Seam) had advanced south from the north lease line of U-017354 and the dike under mine works of the upper #1 mine. The previous owners of the mine developed the upper mine, but had to stop development due to these small faults and increased horizontal stresses that have been documented in the upper mine. Though White Oak has superimposed the mine development in the lower mine to the old mine works in the upper mine, these horizontal stresses are still evident. Roof conditions were so poor that the South Mains were abandoned and offset main entries called South Sub-Main were mined alongside.

Economic Considerations

The combination of these conditions have made further advance to the south problematic. Under standard industry practices and like situations at mines in the area, these reserves to the south could be considered uneconomic. Production rates while crossing some of the offset faults have been reduced on the order of 50 percent as verified by monthly production figures and mine maps. The shear number of faults crossed in the last year have made reduced production rates extend into most of the year. A decrease in the rate of coal production will have a marked effect on the cost of coal. Fixed costs remain the same but revenues decrease. Reduction in revenue from decreased production and sales is a prime economic factor in light of the very small profit margin per ton of coal for all the mines in the area. Add the large increase in fixed costs for the roof support fixtures for the fault crossings, and profitable mining in this area is questionable.

Increased Recovery

It is evident that the conditions now encountered will persist to the south as mining follows the trend of these sympathetic faults. The reserves remaining southward to Huntington Canyon are isolated by the two major faults (Connelville and O'Conner) that extend down to the outcrop in Huntington Canyon. If White Oak does not mine these reserves, they will be bypassed. They cannot be accessed from the east or west due to the two large faults nor is there enough reserves in between the faults to open another mine from Huntington Canyon, which is not desirable from an environmental concern. If mining were to stop now, an estimated 5 million tons of recoverable coal would be bypassed and lost to development.

In part of this south mining area, the coal in a small graben area bounded by two sympathetic faults is now jeopardized because the displacement of the fault is large enough to require rock tunnels to cross the fault from coal to coal. The 4th East off South Sub-main section encountered this north-south fault and estimated the displacement of the fault at 25 feet. This same fault was crossed previously further north in the South Sub-main section between 2nd and 3rd East (see attached map labeled area A). The displacement at this location was only a few feet. Further south, the 4th East entries have hit this same fault, but the displacement here is down 30 feet. However, at this location, White Oak has an opportunity to cross the fault and access the upper seam with an incline rock slope across a 15-foot displacement fault. This would require a 180-foot rock slope at an 8 percent slope. At current costs for driving rock tunnels at $700 to $1000 per linear foot, and three entries across, White Oak would have to spend over $400,000 to access these reserves. With an estimated recoverable reserve in the graben area of 500,000 tons, White Oak would be spending an extra $1 per recoverable ton to access these reserves. A reduction in royalty of nearly $.50 per ton would help offset the cost and make this coal block more attractive to recovery.

Other Factors

If White Oak does not proceed in mining south from current sections, all minable coal between the two large faults south to the outcrop in Coal Canyon will be lost to development. No other access is practical as the outcrop to the south is in sensitive environmental areas, the coal thickness and quality is unknown, and the amount of coal is insufficient to justify large capital expenses for a new portal or rock slopes across faults. Also, continued development south will put the mine workings in the lower seam below undeveloped mine areas south of the furthest development in the upper seam (#1 mine) and eliminate some of the multi-seam stresses. It would allow White Oak to cross sympathetic faults and ramp up to the upper seam and mine the upper seam without trying to rehabilitate old works in the #1 mine to access the Upper O'Conner reserves. It is in the interest of conservation of the coal resource to keep White Oak mining south.

There are increasing pressures on White Oak to further reduce costs. This solely continuous miner mine is competing strictly with high production rate longwall mines in the area. White Oak has had major reductions in force to reduce costs. It is known within this coal region that White Oak is experiencing financial difficulties. Though not documented, it is reported widely among the coal operators and vendors that White Oak is having troubles paying current bills, as well as the fact that royalty payments to Minerals Management Service had been in arrears. There are sufficient pressures for White Oak to leave the south area and finish all mining in the north area near the portal for final retreat. Some remaining coal in the north is private coal leased from Carbon County with $0.15 per ton royalty rates. It is logical to offer some incentive for White Oak to continue with the south area.

Analysis of Application

White Oak's application references the geologic conditions of the south mining area. These areas and conditions were marked and a copy of the mine map was provided. Other data was supplied by White Oak, but referenced the need for reduction due to costs of mining and sales. These figures were not analyzed as they related more to a royalty reduction under Categories 3 and 4. This application was analyzed under the Category 1 criteria. We also analyzed the application with relation to the current mining area. The application requested a Category 1 royalty reduction for the whole mine on all Federal coal leases, namely U-044076, U-067498, UTU-70018, and U-017354. We recommend rejection of the royalty reduction application for all leases except U-017354. The current conditions have been encountered and are projected to occur solely in lease U-017354. This should include the lease modification for U-017354, as the area has the same conditions. U-067498 is completely located east of the O'Conner Fault and no mining plans have been submitted or approved for this area. Should White Oak plan to mine this area at some other time, information would be needed to verify that the conditions on lease U-067498 warrant a royalty reduction. Lease U-044076 contains only a small portion on the east side of the Connelville fault where White Oak is mining. White Oak only subleases the east side of the fault and Canyon Fuels is the lessee of record. Granting royalty reduction to this lease is beyond the scope of this analysis, as further adjudication would be required to separate the application for the lessee and sub-lessee. As to lease UTU-70018, all of this lease is north of the dike and has been extensively mined out. Much of the adverse geologic conditions did not occur on this lease. It is used for access to the current mining areas to the south of the dike. Mining of the remaining reserves of this lease is planned at the end of the mine life. If conditions then exist that warrant a royalty reduction, White Oak can apply then for relief. At this time, mining is many years off and further documentation is needed to show adverse mining conditions for a Category 1 reduction.

Conclusions and Recommendations

From our analysis of White Oak's royalty rate reduction application, we conclude the following:

1. Lease U-017354 is where approved ongoing mining is occurring.

2. Current mining has encountered unanticipated faults and adverse mining conditions beyond like conditions in the area.

3. Access to most of the remaining reserves would require extra capital spending for fault crossings and added roof support.

4. The only access to these reserves is from existing works and the potential for bypass of this Federal coal is likely should White Oak not continue mining.

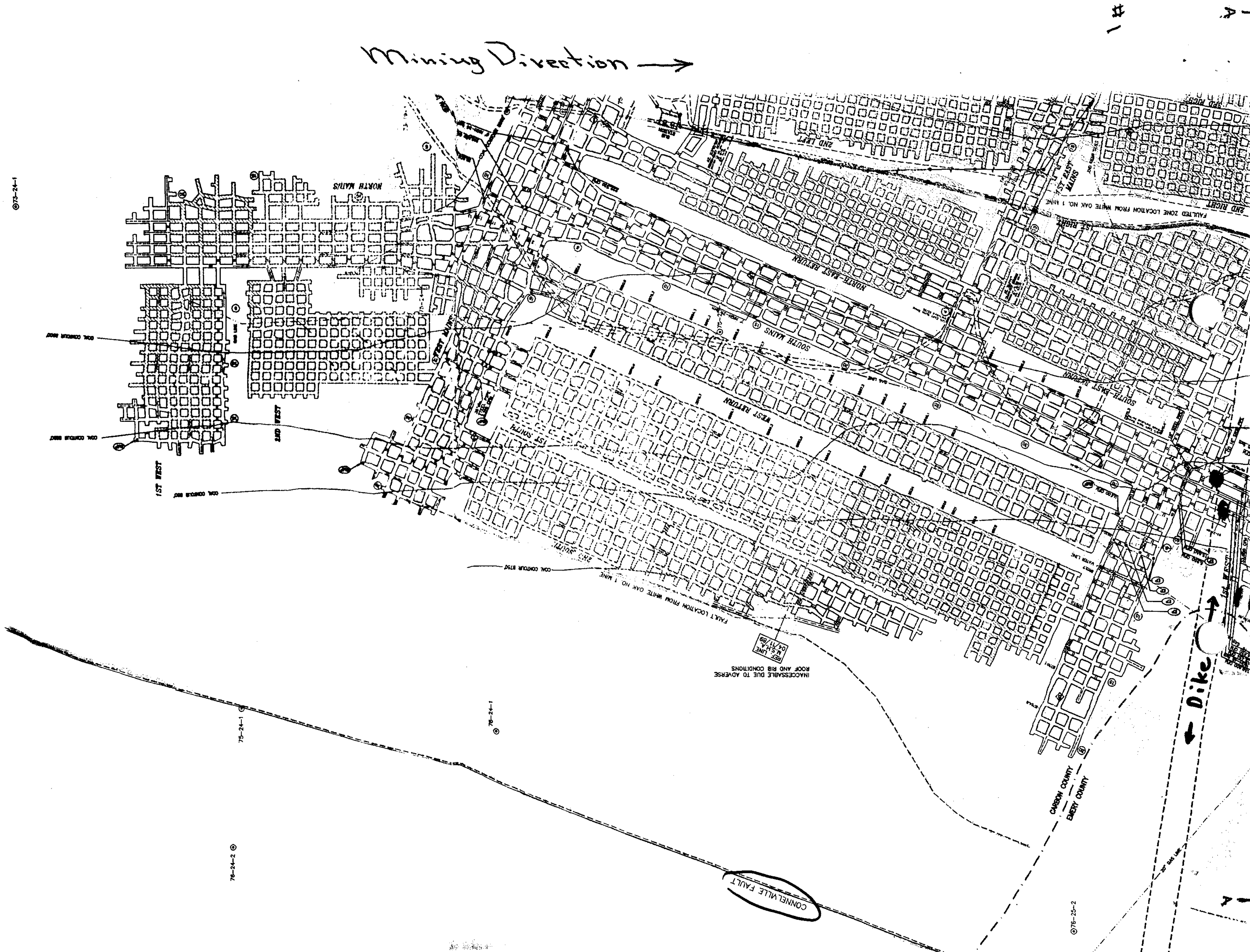
5. Under Category 1. (a), adverse mining conditions have made the Federal leased coal economically unrecoverable under standard industry operating practices and a royalty reduction would promote development and avoid bypass.

6. Some non-Federal coal reserves remain to the north that have lower royalty rates that would qualify under Category 1. (b).

Therefore, White Oak has demonstrated that the mining area under lease U-017354 satisfies the criteria for a royalty rate reduction under Category 1. (a) of expanded recovery. We recommend that the royalty rate for this lease be reduced from 8 to 5 percent of the value of the coal and remain in effect until the coal in the lease is mined out or until it is determined that the adverse conditions no longer exist. This royalty rate reduction should become effective on July 18, 1997, or the date it was determined a complete application was submitted. The royalty rates for the other leases in the White Oak mining permit area should remain at 8 percent until additional information is submitted which warrants a change.

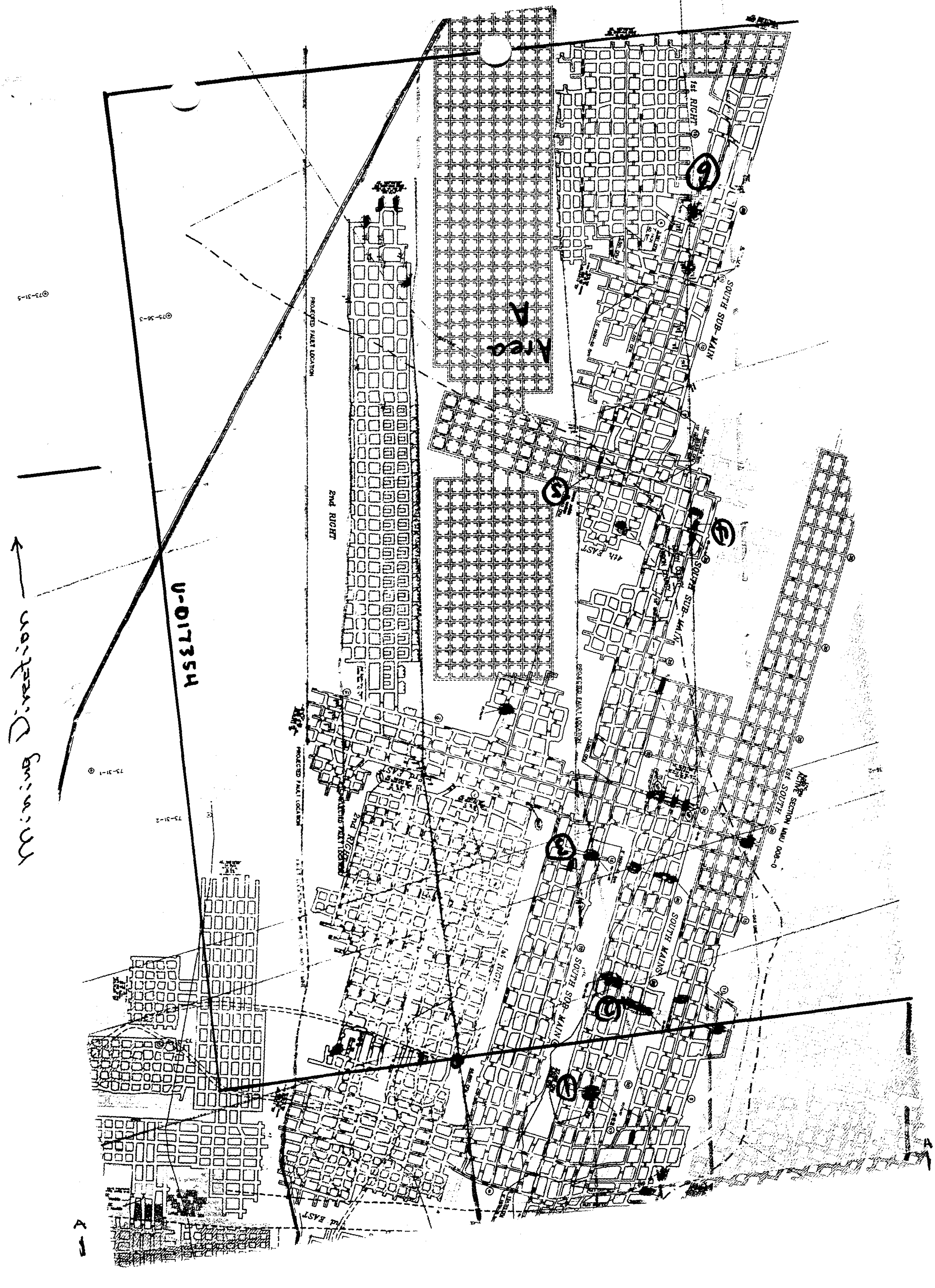
Stephen W. Falk

Stephen W. Falk, Mining Engineer



Mining Direction →
#1
NORTH MAINS
1ST WEST
2ND WEST
WEST MAINS
1ST SOUTH
2ND SOUTH
SOUTH MAINS
WEST RETURN
NORTH-EAST RETURN
SOUTH-EAST MAINS
1ST EAST MAINS
2ND LEFT
1ST RIGHT
2ND RIGHT
FAULTED ZONE LOCATION FROM WHITE OAK NO. 1 MINE
FAULT LOCATION FROM WHITE OAK NO. 1 MINE
INACCESSABLE DUE TO ADVERSE ROOF AND RIB CONDITIONS
CONNELLVILLE FAULT
CARBON COUNTY
EMERY COUNTY
Dike
73-24-1
75-24-1
76-24-1
76-24-2
76-25-2

#2



Mining Direction
U-017354
Area A
1st RIGHT
SOUTH SUB-MAIN
2nd RIGHT
4th EAST
PROJECTED FAULT LOCATION
SOUTH MAINS
1st SOUTH
1st EAST