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State of Utah
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL, GAS AND MINING

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Governor

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ck

October 5, 2001

CERTIFIED MAIL

7099 3400 0016 8896 0020

Dave Miller, Resident Agent
Lodestar Energy, Inc
H.C.35 Box 370
Helper, Utah 84527

Re: Bond Replacement Required, Lodestar Energy, Inc., White Oak Mine, C/007/001, Outgoing File

Dear Mr. Miller:

The new surety rules are now effective and Lodestar Energy, Inc. must replace the current surety, Frontier Insurance Company, within 120 days of receipt of this letter. The new rules, R645-301-860.110, require that a surety company have a rating of A- or better or a Financial Performance Rating of 8 or better according to the A.M. Best's Key Rating Guide and be continuously listed on the Department of Treasury, Circular 570. Currently, Frontier Insurance Company is in "rehabilitation" with the New York Insurance Commission and has a Best's Rating of "E" and was dropped from the Circular 570 in June 2000.

Please call me (801-538-5306) or Pamela Grubaugh-Littig (801-538-5268) if you have any questions about this.

Sincerely,

A handwritten signature in black ink, appearing to read "Mary Ann Wright".

Mary Ann Wright
Associate Director, Mining

vs

Enclosure

Eb Davis, Lodestar Energy, Inc.

John Maycock

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terms, except that surety bond coverage for lands not disturbed may be canceled with the prior consent of the Division. The Division will advise the surety, within 30 days after receipt of a notice to cancel bond, whether the bond may be canceled on an undisturbed area.

860.200. Collateral Bonds.

860.210. Collateral bonds, except for letters of credit, cash accounts and real property, will be subject to the following conditions:

860.211. The Division will keep custody of collateral deposited by the applicant until authorized for release or replacement as provided in R645-301-870 and R645-301-880;

860.212. The Division will value collateral at its current market value, not at face value;

860.213. The Division will require that certificates of deposit be made payable to or assigned to the Division both in writing and upon the records of the bank issuing the certificates.

If assigned, the Division will require the banks issuing these certificates to waive all rights of setoff or liens against those certificates;

860.214. The Division will not accept an individual certificate of deposit in an amount in excess of \$100,000 or the maximum insurable amount as determined by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation.

860.220. Letters of credit will be subject to the following conditions:

860.221. The letter may be issued only by a bank organized or authorized to do business in the United States;

860.222. Letters of credit will be irrevocable during their terms. A letter of credit used as security in areas requiring continuous bond coverage will be forfeited and will be collected by the Division if not replaced by other suitable bond or letter of credit at least 30 days before its expiration date;

860.223. The letter of credit will be payable to the Division upon demand, in part or in full, upon receipt from the Division of a notice of forfeiture issued in accordance with R645-301-880.900.

860.230. Real property posted as a collateral bond will meet the following conditions:

860.231. The applicant will grant the Division a first mortgage, first deed of trust, or perfected first lien security interest in real property with a right to sell or otherwise dispose of the property in the event of forfeiture under state law;

860.232. In order for the Division to evaluate the adequacy of the real property offered to satisfy collateral requirements, the applicant will submit a schedule of the real property which will be mortgaged or pledged to secure the obligations under the indemnity agreement. The list will include:

860.232.1. A description of the property;

860.232.2. The fair market value as determined by an independent appraisal conducted by a certified appraiser approved by the Division; and