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* Admitted only in California
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March 26, 2004

HAND DELIVERED

Mary Ann Wright
Associate Director, Mining
Division of Oil, Gas and Mining
1594 West North Temple, Suite 1210
P.O. Box 145801
Salt Lake City, Utah 84114-5801

**Re: Response to Notices of Potential Liability for Individual Civil Penalties,
Lodestar Energy Inc., Permit No. C/007/0001**

Dear Ms. Wright:

This law firm represents the following individuals ("Recipients"), in their capacity as former or current officers or directors of various Renco companies, with regard to two nearly identical notices sent to each of them by your office (the Division of Oil, Gas and Mining, or "Division"):

Michael Ryan; Dennis A. Sadlowski; Ira L. Rennert; Roger L. Fay; John A. Siegel; Jr., Marvin Koenig; Estate of Justin D'Atri (Deceased), John W. Hughes

The Division's notices ("Notices"), dated March 15, 2004 and titled "Notice of Potential Liability for an Individual Civil Penalty Assessment under the Utah Coal Mining and Reclamation Act (Utah Code §§40-10 Et Seq. (2003))," relate to Mine Permit C/007/0001, held by Lodestar Energy, Inc. The two Notices appear to be identical except that one is based on two cessation orders issued by the Division for failure to reclaim the White Oak Mine loadout, while the other is based on two cessation orders issued by the Division for

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DIV. OF OIL, GAS & MINING

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failure to reclaim the Whiskey Creek Mine highwall. All of the cessation orders were issued on or about June 20, 2003, to William Bishop as Chapter 11 Trustee for Lodestar Energy, Inc.

Each of the March 15, 2004 Notices provides notice to the Recipients of the June 20, 2003 cessation orders, and then threatens each Recipient with the imposition of individual civil penalties "if you willfully and knowingly fail or refuse to take all reasonable steps within your legal authority to bring about abatement of these cessation orders."

By this letter, we apprise the Division that any attempt to levy individual civil penalties against the Recipients of these Notices would be wholly without legal or factual merit, and would be immediately and forcefully contested and appealed to the Board and, if necessary, beyond. We also inform the Division that we find the timing and the content of the Notices to be extremely troubling, insofar as the notices appear to be designed to intimidate certain of the Recipients, under threat of post-settlement individual monetary penalties and state legal proceedings, with regard to their actions in the ongoing negotiations being mediated by Judge Howard in the Lodestar bankruptcy proceedings.

Background & Facts

As you know, Lodestar Energy, Inc. ("Lodestar Energy" or "Permittee") is the Permittee for the White Oak Mine under Division permit No. C/007/0001. On March 30, 2001, Lodestar Energy was placed into involuntary Chapter 11 bankruptcy along with its parent, Lodestar Holdings, Inc. (Eastern District of Kentucky Bankruptcy Court, respectively Case No. 01-5069 and Case No. 01-50972, jointly administered under Case No. 01-50969)("Bankruptcy Case"). These companies operated as debtors in possession from April 27, 2001 until a trustee, William D. Bishop, was appointed on February 3, 2003. In June of 2003, both cases were converted to a Chapter 7 liquidation and Mr. Bishop was appointed as the Chapter 7 Trustee for both companies. The Trustee has operated and been in control of the Permittee (and its parent), under the oversight of the Bankruptcy Court, since his appointment in February 2003.

Recipient Michael Ryan was an assistant secretary of the Permittee until July 1, 2002. Recipient Roger L. Fay was a vice president of the Permittee until July 1, 2002. Recipient John A. Siegel, Jr. was a vice president of the Permittee until January 15, 2003. Recipient Dennis Sadlowski was an assistant secretary of the Permittee until January 15, 2003. Recipient Ira L. Rennert was a director of the Permittee until January 15, 2003. Recipient Marvin Koenig was a vice president of the Permittee until June 30, 1997. Recipient Justin D'Atri, now deceased, was a secretary of the Permittee until July 1, 2002. Recipient John W. Hughes was the president of the Permittee until January of 2002.

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On approximately June 20, 2003, the Division issued cessation orders to the Permittee (Lodestar Energy), addressed to and served upon William Bishop as Chapter 11 Trustee, for failure to remove buildings and structures at the White Oak loadout and failure to eliminate the highwall at the White Oak (Whiskey Creek) Mine. None of the Recipients was an officer or director of the Permittee at the time the cessation orders were issued, nor were the orders served upon any of the Recipients.

Since about November 18, 2003, the Bankruptcy Case has been mediated by Judge William S. Howard, Bankruptcy Court, Eastern District of Kentucky. Counsel for the Division has been in attendance and active in that mediation. On March 1, 2004, a tentative global agreement was reached among the mediation parties, including the Division, by counsel, to resolve issues in the Bankruptcy Case. One of the issues in the mediation, and addressed in the global agreement, is the provision of funding for reclamation of the White Oak loadout and the Whiskey Creek highwall, which would abate the conditions that were the basis for the cessation orders against the Permittee. Under the global agreement, any and all liability of the Permittee, and its corporate parents, and the current and former officers and directors of same, including all liability for reclamation and for corporate and individual civil penalties related to the White Oak Mine, Permit No. C/007/0001, and the related cessation orders, would be settled and resolved.

Inexplicably, on March 15, 2004, over 8 months after the Division issued the cessation orders to the Permittee, and two weeks after the tentative global agreement was reached in the Bankruptcy Case that would comprehensively settle those orders, the Division issued the above-described Notices to the Recipients, threatening individual civil penalties based on those same orders.

Defenses

Based on the above, should the Division actually propose the assessment of individual civil penalties against the recipients as threatened in the Notices, the Recipients will forcefully oppose such penalties based on at least the following defenses:¹

- The Recipients are not officers or directors of the Permittee: Utah Code § 40-10-20(6) provides that “whenever a corporate permittee violates a condition of a permit issued pursuant to this chapter or fails or refuses to comply with any order incorporated in a decision issued by the board under this chapter . . . any director, officer, or agent of the corporation who willfully and knowingly authorized, ordered, or carried out the violation, failure or refusal shall be subject to” the imposition of civil penalties. Utah

¹ The listing of specified defenses in this letter does not act as a waiver of other potential defenses, and Recipients reserve the right to raise such defenses in any future proceedings.

Rule R645-402-200, which implements this statutory provision and which is cited by the Division in the Notices, authorizes the imposition of an individual civil penalty to “any corporate officer, director, or agent of a corporate permittee who knowingly and willfully authorized, ordered or carried out a violation, failure or refusal.” As noted above, while the Recipients were at one time officers or directors of Lodestar Energy, none of them held such a position at the time the cessation orders referenced in the Notices were issued, nor do they now or have they since held such positions. Thus, under the express terms of the applicable statutory and regulatory provisions, individual civil penalties may not be assessed against any of the Recipients.

- The Recipients did not (and could not) “willfully and knowingly authorize, order or carry out the violation, failure or refusal” by the permittee. The cessation orders upon which the Notices are based were issued in June 2003, at which time Lodestar Energy, and Permit No. C/007/0001, were under the control of the Trustee, subject to the jurisdiction of the Bankruptcy Court, which control continues to the present. Thus, even if the Recipients had been officers or directors of the Permittee (which they were not), they would have been without authority to cause the Permittee take action to avoid or abate the cessation orders. The same situation exists at present: the Trustee and Bankruptcy Court continue to control the Permittee and the permit, and the Recipients are not officers or directors of the Permittee in any event. Thus, the Recipients cannot be assessed individual civil penalties under the law and regulation cited in the Notices.

Inappropriate Attempt to Influence or Scuttle Bankruptcy Proceedings

Finally, given their timing and context, we have grave concerns that the Notices reflect an abusive attempt by the Division to intimidate certain of the Recipients involved in the negotiations being mediated by the Bankruptcy Court, by raising the prospect of individual penalties that, while groundless, would be expensive to defend and would cast a serious cloud upon their personal and business reputations. The Notices also are inconsistent with the standstill agreement established by Judge Howard with the consent of all of the mediation parties. Alternatively, the Notices may be aimed at undermining or possibly even scuttling the negotiations themselves, for reasons unknown; imposing the threat of individual penalties after the parties have reached a tentative agreement in principal, and have consented to a standstill agreement, hardly seems aimed at bringing the negotiations to a successful conclusion. Because it appears that the Notices may be aimed at inappropriately influencing the outcome of the ongoing negotiations in the Bankruptcy Case, we felt compelled to provide a copy of this letter to Judge Howard.

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If you or your counsel have any questions, feel free to give me a call.

Sincerely,

A handwritten signature in black ink, appearing to read "M. J. Malmquist". The signature is written in a cursive style with a large, stylized initial "M".

Michael J. Malmquist

MJM/cvd

cc: The Honorable William S. Howard (by E-mail & 1st Class Mail)
Steve Alder (by E-mail & 1st Class Mail)