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Document Information Form

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Date Sent: JULY 31, 1981

Explanation:

Agenda

cc:

File in: C1 007, 004, Incoming

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A G E N D A
BOARD OF STATE LANDS AND
BOARD OF FORESTRY & FIRE CONTROL
MT. FUEL AUDITORIUM
45 EAST 200 NORTH
LOGAN, UTAH 84321
JULY 8, 1981
8:00 a.m.

John
Tan T.
Call John
Blake re:
Staff Memo's
1 and 2

Welcome by Mr. Sawyers, Board Chairman

A. APPROVAL OF MINUTES

Land Board Minutes of June 10, 1981
Director's Minutes of May 26, June 1, 8, 15, & 22, 1981

B. HEARINGS & APPEALS

- ? 1. Appeal of Mineral Lease Readjustment - ML 18148 - Blackhawk Coal Co.
See Staff Memo No. 1

C. LEASE ACTIONS

- ? 1. SULA No. 526 - Eureka Energy Company
See Staff Memo No. 2

D. SELECTIONS - EXCHANGES - SALES

1. Land Sale to Town of Perry
See Staff Memo No. 3
Appearance of Charles D. Woolums -- 8:30 a.m.
2. Sale of State Lands to Provo-Jordan Parkway Authority
See Staff Memo No. 4
Appearance of Nolan Hanson -- 8:45 a.m.
3. St. George Water Tank & Pipeline - State Exchange No. 121
See Staff Memo No. 5
4. Land Exchange With Milton L. Taft, Jr.
See Staff Memo No. 6
5. Energy Crisis Exchange
Appearance of John H. Morgan, Jr. -- 9:00 a.m.

Price R.C.C.

AEP ?

File Memo #1
ACT/007/004

Memo #2
ACT/007/009

JIM

JUL 31 1981

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AGENDA
BOARD OF STATE LANDS &
BOARD OF FORESTRY & FIRE CONTROL
JULY 8, 1981
PAGE NO. 2

E. PROGRAM & STAFF RECOMMENDATIONS

1. North Logan Canyon Land Block
See Staff Memo No. 7
Appearance of Rep. of Logan Canyon Cattle Assoc. - 9:30 a.m.
2. Forest Product Prices
See Staff Memo No. 8
3. Fire Management Program Regulations
See Staff Memo No. 9
4. Rules & Regulations Governing the Issuance of Mineral Leases
See Staff Memo No. 10
5. Lease Terms for Oil, Gas, & Hydrocarbon Leases
See Staff memo No. 11
6. Discussion of Division Audit
Appearance of Jim Rogers, Auditor's Office - 10:30 a.m.
7. State Forester's Report
8. Bear Lake Lease
Appearance of Mike Quealy - Assistant Attorney General

F. INFORMATIONAL ITEMS

1. Financial Recap
2. Project Bold
3. Lake Front Duck Club
Appearance of Mike Quealy

DATE: _____

BOARD MEMO
RECEIVED
JUL 22 1981

TITLE: APPEAL OF MINERAL LEASE READJUSTMENT

APPLICATION NO. ML 18148 Coal

APPLICANT Blackhawk Coal Co.
c/o Hugh C. Garner, Esq.
Suite 1100 Kennecott Bldg.
S.L.C., UT 84113

FUND School
LEGAL DESCRIPTION: _____
COUNTY: Carbon

DIVISION OF
OIL, GAS & MINING
ACRES 8.00
T12S, R9E, S1M
Section 32: A11

BACKGROUND:

This lease was issued February 16, 1960 with provision that the Lessor may readjust terms and conditions of the lease at each 20 year interval (the date for readjustment was technically January 1, 1980). On January 14, 1981, I noted that this lease had not yet been readjusted and notified the Lessee of our demand for new terms and conditions on the lease. The new terms and conditions were to be in accordance with our current lease forms, i.e., \$1.00 per acre rental, \$10.00 per acre minimum royalty, and 8% fob the mine production royalty. The Lessee indicates an unwillingness to accept these new payment rates and in fact questions Lessor's authority to readjust the lease after the critical date of January 1, 1980.

FINANCIAL CONSIDERATION:

<u>Present Payments</u>		<u>Proposed Payment</u>
\$320/year rental		\$640/year rental
\$320/year minimum royalty	vs.	\$6,400/year minimum royalty
15¢/t production royalty		8% production royalty (\$2.89/t)

NOTE: Rental and minimum royalty may be credited toward production royalty.

This lease involves a producing coal mine which last year extracted approximately 194,000 tons of coal from State land. At 15¢/t royalty the State received only about \$29,100 on this production (on \$25/t fob the mine coal, this equates to a percentage royalty rate of .6%).

The Lessee argues that an 8% royalty rate would increase their costs from \$38.21 to \$41.10 per ton, being a dramatic increase in royalty. Lessee further argues that a percent type royalty means that royalty payments would unjustly increase with increased mining costs (costs are passed on to the buyer in the form of higher prices). The company suggests that the Land Board give consideration to external economic benefits to the State of Utah as a result of this mine being in operation, i.e., employment, taxes, purchases, etc.

Of course the primary obligation of State land usage is to benefit the trust. A percentage type royalty is preferable by the Lessor for the very fact that it does increase with inflationary pressures thus maintaining pace with rising coal values. True, the Lessee's costs will dramatically increase under the new royalty rate. But, the State of Utah should rightly receive a fair royalty for its coal resources and not be placed in a position of subsidizing eastern utility companies by allowing a substandard royalty so that coal prices may remain low, (Blackhawk Coal Company is a wholly owned subsidiary of Indiana and Michigan Electric Company).

COMMENTS FROM OTHER AGENCIES:

A.G. counsel suggests the State is entitled to a grace period in which to make lease readjustments even though the technical deadline for readjustment has passed.

STAFF RECOMMENDATION:

I recommend that this lease be terminated unless Lessee agrees to readjustment with new rental and royalty rates as demanded by the Land Board.

SPECIAL CONSIDERATIONS:

This lease is located in proximity to good transportation facilities and thus enjoys a competitive advantage. This lease has at least seven different overriding royalty interests for a cumulative overriding royalty of at least 15% net profits.

(Name)

John T. Bleb

(Title)

Mineral Resources Spec.

DATE: June 26, 1981

BOARD MEMO NO. 2

APPLICATION NO. SULA No. 526

APPLICANT Eureka Energy Company
77 Beale Street
San Francisco, CA 94106

FUND School ACRES 48.83
LEGAL DESCRIPTION: T13S, R11E, SLB&M
Section 36 W $\frac{1}{2}$ NW $\frac{1}{4}$
T13S, R12E, SLB&M
Section 32: W $\frac{1}{2}$

COUNTY: Carbon

BACKGROUND:

Eureka Energy Company (a subsidiary of Pacific Gas and Electric Company) has completed an environmental study and plans over the past five years for a 3.5 to 5 million ton a year coal mining operation in Carbon County, north of Wellington under the rim of the Book Cliffs. There is sufficient coal in the designated site to operate at this level of production for 40 to 50 years. In the process of preparing for production, some of the local ranches have been bought and leased back on a long time basis.

Three tracts of State land has been applied for in a special use lease. This includes 7.5 acres, next to a water storage reservoir, acquired by the Eureka Energy Company; the other two total 41.33 acres in a draw adjacent and within lands acquired from the BLM and private landowners for use as a fill area (draw) to be reclaimed.

This special use lease has been requested for a period of fifty (50) years.

FINANCIAL CONSIDERATION:

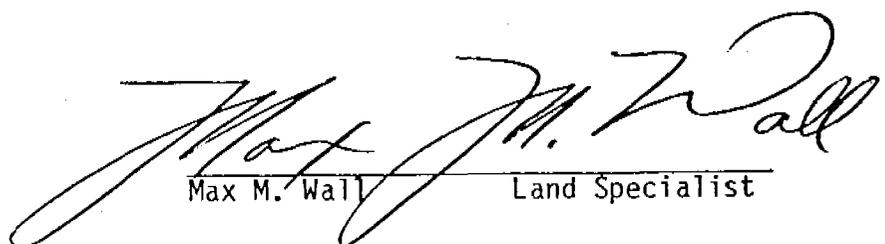
An annual fee of \$1,500.00 with a five (5) year review clause.

COMMENTS FROM OTHER AGENCIES:

STAFF RECOMMENDATION:

Approval

SPECIAL CONSIDERATIONS:


Max M. Wall Land Specialist

