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United States Department of the Interior

BUREAU OF LAND MANAGEMENT

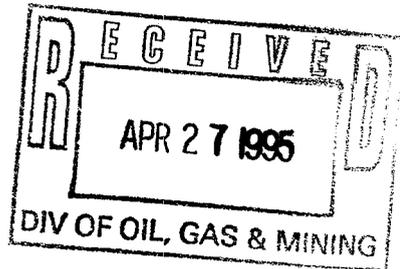
Utah State Office
324 South State, Suite 301
Salt Lake City, Utah 84111-2303

IN REPLY REFER TO:

3474
U-020305
UTU-70018
(UT-923)

APR 27 1995

Mr. James W. Carter, Director
Utah Division of Oil, Gas and Mining
3 Triad Center, Suite 350
355 West North Temple
Salt Lake City, Utah 84180-1203



Dear Mr. Carter:

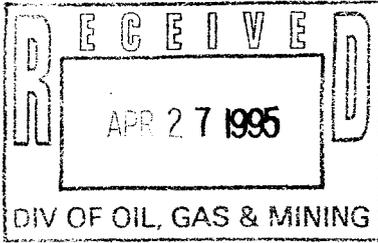
Enclosed is a copy of the settlement agreement between Valley Camp of Utah, Inc., Coastal States Energy Company, and Bureau of Land Management and Minerals Management Service, United States Department of the Interior concerning royalty payments for the period from May 1, 1982, through February 29, 1992, on coal leases U-020305 and UTU-70018.

Sincerely,

Douglas M. Koza
Deputy State Director,
Mineral Resources

Enclosure
Settlement Agreement (6pp)

cc: Resources Development Coordinating Committee (w/enclosure)
Attn: Mineral Leasing Task Force
116 State Capitol Building
Salt Lake City, Utah 84114



STOEL RIVES BOLEY
JONES & GREY

ATTORNEYS AT LAW
SUITE 1100
ONE UTAH CENTER
201 SOUTH MAIN STREET
SALT LAKE CITY, UTAH 84111-4904

Telephone (801) 328-3131
Telecopier (801) 578-6999
Writer's Direct Dial Number

(801) 578-6956

February 1, 1995

UTAH STATE OFFICE STATE DIRECTOR'S OFFICE				
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RECEIVED

APR 20 1995

Bureau of
Land Management

VIA EXPRESS MAIL
RETURN RECEIPT REQUESTED

Kenneth Vogel, Esq.
Chief, Office of Enforcement
United States Department of the Interior
Minerals Management Service
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

Re: *Settlement Agreement -- Valley Camp of Utah, Inc., et al.*
(United States Coal Lease U-020305)

Dear Ken:

In accordance with our prior understanding, the Settlement Agreement between Valley Camp of Utah, Inc., Coastal States Energy Company, and Bureau of Land Management and Minerals Management Service, United States Department of the Interior having to do with United States Coal Lease U-020305 has been circulated to and signed on behalf of both Valley Camp of Utah, Inc. and Coastal States Energy Company. An original fully signed copy has been retained by each of Valley Camp and Coastal States. I am enclosing for your action, one fully signed copy of the Settlement Agreement and one copy that has been signed by all of the parties other than the Bureau of Land Management. The Agreement has been dated as of the 16th Day of March, 1995 on the first page of the Agreement and, pursuant to paragraph H, became effective on April 12, 1995, when signed by all of the parties.

It is my understanding that you will now contact the appropriate parties to cause the various actions to occur that are called for by the text of the Agreement on behalf of the MMS and the BLM.

SLC1-13924.1 20271 0001

SALT LAKE CITY,
UTAH

PORTLAND,
OREGON

SEATTLE,
WASHINGTON

BOISE,
IDAHO

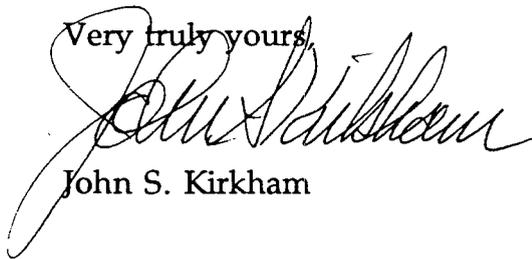
WASHINGTON,
DISTRICT OF COLUMBIA

VANCOUVER,
WASHINGTON

Kenneth Vogel, Esq.
April 18, 1995
Page 2

If I can be of any further assistance with regard to this matter, please do not hesitate to contact me.

Very truly yours,

A handwritten signature in cursive script, appearing to read "John S. Kirkham". The signature is written in black ink and is positioned above the printed name.

John S. Kirkham

JSK:dr

Enclosure

cc: Matt Millenbach (w/enc.)
David Lung
Richard Winkler, Esq.
William S. Hudgins, Jr., Esq.
Barbara Polich, Esq.
Denise Dragoo, Esq. (w/enc.)

**SETTLEMENT AGREEMENT
BETWEEN
VALLEY CAMP OF UTAH, INC.
COASTAL STATES ENERGY COMPANY
AND
BUREAU OF LAND MANAGEMENT AND
MINERALS MANAGEMENT SERVICE,
UNITED STATES DEPARTMENT OF THE INTERIOR**

THIS SETTLEMENT AGREEMENT ("AGREEMENT") is made and entered into by and between Valley Camp of Utah, Inc., a Utah Corporation ("Valley Camp"), Coastal States Energy Company, a Texas Corporation ("Coastal") and the United States Department of the Interior ("DOI"), Bureau of Land Management ("BLM") and Minerals Management Service ("MMS") as of the 16th day of March, 1995.

RECITALS

1. DOI leased certain Federal lands in Utah to Emmett K. Olson on March 1, 1962, which is identified by its Federal Lease No. U-020305. This leasehold was subdivided into two portions, operated separately. Coastal became the successor in interest to the lessee of record in 1982; Valley Camp became the successor in interest to the sublessee of a portion of the lease in November 1975. All transfers were approved by the BLM in accordance with its regulations.

2. The lease provided that royalties be paid to the Federal Government on the basis of cents per ton of coal produced from the lease and reserved to the Government the right to readjust any term of the lease after twenty years and every twenty years thereafter.

3. Effective March 1, 1992, Lease No. U-020305 was readjusted pursuant to the governing regulations. By BLM decision of June 30, 1993, the lease was segregated into two leases. Valley Camp's portion is now denominated Lease No. UTU-70018.

4. On October 7, 1981, prior to the end of the twenty year primary lease term, BLM notified Malcolm N. McKinnon, then lessee of record, of its intention to readjust the lease to provide that royalty be paid on an *ad valorem* basis. The BLM also sent copies to all interested owners, including Valley Camp. McKinnon objected to the readjustment, was overruled, and appealed to the Interior Board of Land Appeals, which affirmed with respect to the royalty rate, but remanded on other grounds. On May 28, 1985, the BLM issued its decision to Coastal implementing the IBLA's decision, which Valley Camp did not receive.

5. Coastal, as successor in interest to McKinnon, appealed this decision. Valley Camp attempted to intervene, but BLM decided that only the lessee of record and not sublessees should participate in the renewal process.

6. BLM and Coastal came to an agreement, in the form of a Memorandum of Understanding (MOU), on October 17, 1988, where Coastal specifically agreed to a royalty rate covering Coastal's production of 8 percent and also agreed to dismiss and terminate, with prejudice, all pending litigation and dismiss and terminate, without prejudice, all pending administrative actions concerning Coastal's interests in the lease.

7. By letter dated May 2, 1986, MMS determined that Valley Camp had underpaid royalties for the period May 1, 1982, through December 31, 1985. Valley Camp appealed. In December 1986 Valley Camp posted a bond in the amount of \$1,595,000 to cover the amount of the alleged underpayment. The MMS Director upheld the order in an appeal docketed as MMS-86-0291-MIN, which was upheld by the IBLA on January 29, 1993. By letter dated April 8, 1993, MMS directed Valley Camp to pay additional royalties for the period from January 1, 1986, through February 29, 1992.

8. In 1990, BLM informed Valley Camp that it considered their lands subject to the MOU with Coastal. Valley Camp objected, and appealed to IBLA, which upheld BLM.

9. By letter dated August 27, 1990, the BLM also required that the total bond posted with respect to the lease be increased to \$4,551,690. Coastal's standard lease bond in the amount of \$50,000 is also on file. Valley Camp also supplied lease bond riders to increase its total bonded obligation to the amount of \$4,551,690. The riders were accepted and are on file with the BLM. By Decision dated June 30, 1993, the BLM continued Coastal's \$50,000 bond as coverage for the lands retained within Lease No. U-020305. Valley Camp's bond in the amount of \$4,551,690 was amended to cover the segregated portion contained in Lease No. UTU-70018.

* 10. On May 20, 1994, the Tenth Circuit reversed the determination that BLM did not have an obligation to involve Valley Camp fully in the readjustment of its sublease. It ruled that the readjustment undertaken by BLM was not effective as to Valley Camp's portion of the lease.

11. On October 5, 1994, MMS sent an order to Coastal directing that it pay royalties on all production from Lease No. U-020305 for the period May 1, 1982, through February 29, 1992 at the royalty rate agreed to in the MOU. This includes production from Valley Camp's sublease. The amount of the estimated claimed underpayment was \$4,801,360.

12. MMS believes that Coastal, as lessee is responsible for the underpayment of royalties. Coastal and Valley Camp believe that the decision by the Tenth Circuit implies that there is no underpayment of royalties.

13. Valley Camp has been paying royalties on an *ad valorem* royalty rate since March, 1992.

14. The MMS, BLM, Valley Camp and Coastal have determined that it is in the best interest of all parties to settle the royalty obligations addressed in the Order as well as certain other obligations

AGREEMENT

- A. In consideration for the covenants contained herein, MMS withdraws with prejudice its October 5, 1994 order to Coastal and its May 2, 1986 and April 8, 1993 orders to Valley Camp for underpayment of royalties regarding production from Valley Camp's portion of Lease No. U-020305, now segregated as Lease No. UTU-70018. It is expressly understood that this withdrawal satisfies all claims by MMS under the Orders relating to Coastal and Valley Camp's royalty and late-payment interest obligations under the leases for the period May 1982 through February 1992.
- B. Within 10 days of the effective date of the agreement, MMS will return to Valley Camp the surety posted in MMS-86-0291-MIN. By that date, BLM will also issue a decision returning to Valley Camp the surety posted by Valley Camp under Leases Nos. U-020305 and UTU-70018 relating to royalties for the period May 1982 through February 1992 and determining the amount of bonding required for Lease No. UTU-70018 exclusive of such royalties. BLM's bonding decision will require the bond to be posted by Valley Camp to Lease No. UTU-70018 and Valley Camp shall be responsible for the performance of any obligation under the lease.
- C. Valley Camp and Coastal agree not to contest the current readjusted royalty rates on Leases Nos. U-020305 or UTU-70018, which became effective March 1, 1992.
- D. It is specifically understood and agreed that this agreement is executed for the sole purpose of settling the issues described herein. Neither Coastal, Valley Camp, nor the DOI (including the MMS and BLM) shall be deemed to have approved, accepted, or consented to any concept, method, theory, principle, or statutory, regulatory or contractual interpretation underlying, or supposedly underlying, any of the matters agreed to herein or raised in connection with the issues settled herein. This agreement shall have no precedential value and shall not be binding on either party as to any issues other than those specifically identified herein.

- E. Nothing in this or any other agreement shall be construed so as to deprive a Federal official of their authority to revise, amend, or promulgate regulations. Nor shall anything in this Agreement be construed to commit a Federal official to expend funds not appropriated by Congress. Nor shall anything in this Agreement bar any party from seeking judicial relief enforcing this Agreement in any court having jurisdiction of the matter.
- F. This agreement contains the entire agreement between the parties concerning the settlement of the matters described herein. It may be amended or modified only by written agreement, executed by an authorized representative of each party.
- G. The undersigned individuals each represent and warrant that they are authorized to enter into this agreement, as indicated, on behalf of their respective parties.
- H. This agreement is to be effective when signed by all parties.

United States Department of
the Interior, Minerals
Management Service

By:


Cynthia Quarterman
Acting Director

Date: APR 4 1995

United States Department of
the Interior, Bureau of Land
Management

By:



Date: 3-16-95

Valley Camp of Utah, Inc.

By:


Secretary/Treasurer

Date:

April 11, 1995

Coastal States Energy Company

By:


President

Date:

April 12, 1995