

BUREAU OF LAND MANAGEMENT

UTAH STATE OFFICE

P. O. BOX 45155

SALT LAKE CITY, UTAH 84145-0155

0004

**TELEFAX
MESSAGE**

ACT/007/005 #2

To: PAM GRUBAUGH-LITTLE

*Fax PFD
Copy May 2005
- Jansen*

Office/Company Name: DOG M

Fax No.: 359-3940

No. of Pages to follow: 4

From: CHRIS MERRITT Telephone No. 539-4109

Office: Minerals Adjudication Group, UT-932

Fax No. (801) 539-4200 Date 10/18/99

Special Instructions: _____



United States Department of the Interior

BUREAU OF LAND MANAGEMENT

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

In Reply Refer To:
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U-044076
U-0147570
(UT-932)

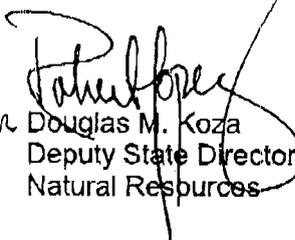
OCT 18 1999

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

Dear Mr. Braxton:

Enclosed is a request from Canyon Fuel Company, LLC to amend its royalty rate reduction request filed January 14, 1999. Please review the enclosed document and submit your recommendations to this office within thirty days of receipt of this letter. If you have any questions or requests (such as access to confidential and proprietary information), please contact Max Nielson at 539-4038.

Sincerely,


for Douglas M. Koza
Deputy State Director
Natural Resources

Enclosure
Amendment Cover Letter

Canyon Fuel Company, LLC
 6955 Union Park Center, Suite 540
 Midvale, Utah 84047
 Fax: 801 589 4799
 801 589 4706

UTAH STATE OFFICE
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 ACCOUNTS UNIT



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DEPT. OF THE INTERIOR
 BUR. OF LAND MGMT

Richard D. Pick
 President and CEO

July 22, 1999

Sarah E. Wisely, State Director
 Bureau of Land Management
 U.S. Department of the Interior
 324 South State, Suite 301
 Salt Lake City, UT 84111-2303

Hand Delivered

Re: Amendment to Skyline Mine Royalty Reduction Request filed January 14, 1999

Dear Ms. Wisely:

On January 14, 1999, Canyon Fuel Company, LLC, on behalf of Skyline Mine, filed a Royalty Rate Reduction request with the State Office of the Bureau of Land Management in Salt Lake City, Utah. After preliminary review by the BLM and subsequent discussions between Canyon Fuel and the BLM, Canyon Fuel wishes to amend its Royalty Rate Reduction request in a manner as described in this document. Without approval, I am not certain that financially Canyon Fuel can afford to continue operating at Skyline. Canyon Fuel will provide any other information required in an expeditious manner to facilitate the BLM and MMS review.

The original request can be summarized as follows:

1. The original request asks for a temporary production royalty of 5% on 4,631,568 tons of remaining reserves in the Lower O'Connor "B" Seam which have been overmined in the Upper O'Connor Seam.
2. The original request also asks for a temporary production royalty of 5% on 7,050,019 tons to be mined in the future as a recoupment of royalties paid at 8% for 7,050,019 tons previously mined in the Lower O'Connor "B" Seam which had been overmined in the Upper O'Connor Seam. Due to this overmining, numerous geological and engineering problems were encountered as detailed in the Royalty Rate Reduction request.
3. Canyon Fuel requested the Royalty Rate Reduction as Category 1 as described in the Bureau of Land Management's ROYALTY RATE REDUCTION GUIDELINES FOR THE SOLID LEASABLE MINERALS. Category 1 allows for a royalty rate reduction when the lessee certifies that, without a royalty rate reduction, adverse geologic and engineering conditions make the solid leasable mineral resources unrecoverable at the lease royalty rate using current standard industry operating practices.

SUFCO Mine

Skyline Mines

Soldier Canyon Mine

Sarah E. Wisely
July 22, 1999
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Canyon Fuel wishes to amend its January 14, 1999, Royalty Rate Reduction request as follows:

1. Canyon Fuel asks for a temporary production royalty of 2% on 4,631,568 tons of remaining reserves in the Lower O'Connor "B" Seam which have been overmined in the Upper O'Connor Seam.
2. Canyon Fuel requests the original Royalty Rate Reduction as Category 4 ("Financial Test") as described in the Bureau of Land Management's ROYALTY RATE REDUCTION GUIDELINES FOR THE SOLID LEASABLE MINERALS. Category 4 allows for a royalty rate reduction to a level below the rate set forth in the guidelines for Categories 1 and 2 when the lessee qualifies under Category 1 or 2.
3. Canyon Fuel withdraws its request for a temporary production royalty of 5% on the additional 7,050,019 tons to be mined in the future as a recoupment of royalties paid at 8% for 7,050,019 tons previously mined in the Lower O'Connor "B" Seam. However, the information offered in the original request detailing the adverse geologic and engineering conditions in the multiple seam areas is useful to clarify the reasons for the financial situation that Canyon Fuel now faces.

In support of this request to be considered under Category 4, Canyon Fuel includes, as **Exhibit A** with this amendment, detailed financial information as required by the guidelines for the year 1998 ("latest 12-month test period" immediately preceding the filing date) and years 1999 and 2000 ("24-month forecast period" immediately following the filing date). As was requested by Canyon Fuel in the original filing, the content of this amendment is **CONFIDENTIAL INFORMATION** and **CONTAINS PROPRIETARY INFORMATION INCLUDING TRADE SECRETS AND COMMERCIAL INFORMATION**. Adjusting for the items not allowed by the BLM Guidelines, the "latest 12-month test period" shows that Skyline Mine lost \$2,243,000 in the year 1998. Adjusting for the items not allowed by the BLM Guidelines, the "24-month forecast period" projects that Skyline Mine will lose \$4,160,000 in the year 1999 and will lose \$20,274,000 in the year 2000.

This request for Royalty Rate Reduction is only one of numerous actions taken by Canyon Fuel at Skyline Mine over the last two-and-one-half years to lower lease operating costs. A number of these other actions taken are detailed in this amendment in **Exhibit B** showing that Canyon Fuel is conducting its operations in a reasonable and prudent manner.

This amendment is accompanied by a report prepared by an independent Certified Public Accounting firm, Ernst & Young, expressing an opinion of the accuracy of the information presented in the historical financial statement herein submitted. The independent CPA report is included as **Exhibit C**.

This amendment is also accompanied by summaries of all sales contracts for each customer which received coal from Canyon Fuel Company's Skyline Mine during the "latest 12-month test period." These summaries are included as **Exhibit D**.

Sarah E. Wisely

July 22, 1999

Page 3

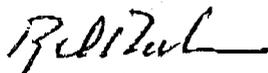
The large financial loss projected for the year 2000 will happen because of decreased longwall production due to development being behind. In the year 2001 and beyond, Skyline will be mining outside the area influenced by the Mine 1 workings, and we expect the mine to return to a more favorable financial situation. The problem facing us now is to make it through the next two years and get to that point in time when profitability will improve. We feel that the present situation at Skyline is exactly why Section 39 of the Minerals Leasing Act allows for temporary Royalty Rate Reductions, and we ask your speedy review and approval of this request. With approval of the Royalty Rate Reduction, I feel that Skyline has a good chance of surviving until we can get out of the area influenced by Mine 1 and into better, more profitable mining conditions.

Requests for additional information or clarification should be directed to:

Doug Johnson, Manager of Technical Services
Canyon Fuel Company, Skyline Mine
Phone: (435) 448-2609
Home (435) 462-2915
Fax: (435) 448-2632
e-Mail: dejohnson@archcoal.com

As can be seen by the information contained in this amendment, this requested Royalty Rate Reduction is vital to the continued feasibility of the Skyline Mine operation. Your timely review and decision is crucial to our future.

Sincerely yours,



Richard D. Pick
President & CEO
Canyon Fuel Company, LLC

Attachments