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May 28, 1987

HAND DELIVERED

Barbara Roberts, Esq.  
Special Assistant Attorney General  
124 State Capitol Building  
Salt Lake City, Utah

RE: REPLACEMENT BOND - KAISER COAL CORPORATION

Dear Barbara:

Pursuant to our discussion today with Craig Christensen, enclosed is a proposed reclamation agreement between Kaiser Coal Corporation and the State of Utah. This agreement is intended to provide the State of Utah with interim relief during Kaiser's reorganization or until such time as the Utah operations are acquired by a new owner, or other bonding arrangements are entered into.

Please let me know as soon as possible concerning the Division's position on this matter. If the agreement appears acceptable in concept, I will notify Craig Christensen so that he can petition the Court for approval.

Very truly yours,



Denise A. Dragoo

DAD:jk

Enclosure

cc: ✓ Director Dianne R. Nielson  
✓ Pamela Grubaugh-Littig  
Joe Taylor  
Thomas L. Hopkins, Esq.  
Jeffrey C. Collins, Esq.  
Craig Christensen, Esq.

## RECLAMATION AGREEMENT

This Reclamation Agreement (hereinafter referred to as the "Agreement") is entered into between KAISER COAL CORPORATION, a Delaware corporation (hereinafter referred to as "Kaiser") and the STATE OF UTAH, DEPARTMENT OF NATURAL RESOURCES, DIVISION OF OIL, GAS & MINING (hereinafter referred to as the "Division").

W I T N E S S E T H :

WHEREAS, Kaiser and the Division entered into Self Bonding and Indemnity Agreements securing Kaiser's reclamation liability under the Utah Coal Mining and Reclamation Act, Utah Code Ann. § 40-10-1, et seq., 1953, as amended ("Act") and implementing regulations, for the Geneva (Horse Canyon) Mine dated November 4, 1985 in the amount of \$918,649.00 (1989 dollars), the Sunnyside Mine dated January 6, 1986 in the amount of \$3,397,349 (1990 dollars) and the Wellington Preparation Plant dated January 31, 1986 in the amount of \$4,360,775 (1989 dollars);

WHEREAS, on February 13, 1987, Kaiser filed a petition under Chapter 11 of the U.S. Bankruptcy Code and is currently operating under the protection of the federal Bankruptcy Court for the District of Colorado;

WHEREAS, by letter of March 25, 1987, Kaiser informed the Division pursuant to the terms of the Self Bonding and Indemnity Agreements of the Company's inability to meet the self bonding criteria set forth at UMC 800.23 of the Division's regulations;

WHEREAS, by letter of March 26, 1987, the Division notified Kaiser that pursuant to UMC 800.23(G), an alternate form of bond securing the total reclamation liability of \$8,676,823 must be posted with the Division within ninety days of receipt of said letter;

WHEREAS, Kaiser is proceeding with efforts to sell the Utah mining properties through its agent Morgan Guarantee & Trust Co. and has scheduled a phase one bid date of June 22, 1987 and anticipates several offers for purchase of the mining properties on said date; and

WHEREAS, the Division and Kaiser desire to enter into this Agreement to secure Kaiser's reclamation liability at its Utah mining properties until such obligation can be assumed by the purchasers of the property or other provisions to secure the reclamation liability are undertaken.

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the sufficiency and receipt of which is hereby acknowledged, Kaiser hereby agrees as of the date of this Agreement to be held and bonds to the Division and the federal Office of Surface Mining ("OSM") in the total sum of \$8,676,823 for the timely performance of reclamation responsibilities at the Geneva (Horse Canyon) Mine, Permit No. ACT/007/013 in the amount of \$918,649 (1989 dollars) for 50 acres of surface disturbance, at the Sunnyside Mine, Permit No. ACT/007/007 in the amount of \$3,397,349 (1990 dollars) for 287.4

acres of surface disturbance and at the Wellington Preparation Plant, Permit No. ACT/007/012 in the amount of \$4,360,775 (1989 dollars) for 356 acres of surface disturbance (said properties collectively referred to herein as the "Utah Mining Properties"). By the submission of this Agreement, Kaiser will and truly binds itself, its successors and assigns, firmly by these presents. Said reclamation obligation is secured by the Mortgage, Deed of Trust and Security Agreement attached hereto and incorporated herein by reference. Said reclamation obligation is subject to the following terms and conditions:

1. In the event that a subsequent purchaser acquires any or all of the Utah Mining Properties, the Division agrees to a partial or total release of this Agreement and the Mortgage, Deed of Trust and Security Agreement upon the substitution of adequate surety or other bonding arrangement guaranteeing the reclamation requirements for that portion of the Utah Mining Properties acquired by the subsequent purchaser. Said release will be recorded in the real property records in the counties in which the Mortgage, Deed of Trust and Security Agreement is recorded;

2. To the extent possible under the U.S. Bankruptcy Code, Kaiser will perform all duties and fulfill all requirements applicable to reclamation as set forth in the Act, the Division's regulations and the conditions of the applicable permit. In the event that Kaiser is unable to undertake such responsibilities,

and the Mortgage, Deed of Trust and Security Agreement is inadequate to cover the costs of reclamation activities that may be undertaken by the State at any of the Utah Mining Properties, Kaiser agrees to treat reasonable costs of reclamation incurred by the State of Utah as administrative expenses of the bankruptcy estate in an amount to be determined upon petition of the Bankruptcy Court by the State;

3. Kaiser agrees to provide a representative from the Utah Attorney General's Office with monthly progress reports concerning the sale of its Utah Mining Properties commencing on July 1, 1987. The Attorney General agrees to limit access to such reports to allow Division review only and the Attorney General and the Division agree to protect these reports as confidential data pursuant to Utah Code Ann. § 40-8-8(1). Kaiser agrees that the Attorney General is authorized on behalf of the Division to contact the following individual at Morgan Guarantee & Trust Co. to determine the status of sales of the Utah Mining Properties on the condition that information obtained from Morgan Guarantee & Trust Co. is protected as confidential as provided above: Bruce Gebhardt, Morgan Guarantee & Trust Co., 23 Wall Street, New York, New York 10015, 212-483-2896;

4. The liability under this Agreement is conditioned upon successful reclamation of the permit areas as provided in the reclamation plans for the Utah Mining Properties permits for a period of time and in the manner specified in the Act, regulations adopted pursuant thereto and the conditions set forth

in said permits issued by the Division. At no time shall the liability or responsibility of Kaiser hereunder exceed the sum of \$8,676,773. Provided, however, that the Division may adjust the amount of liability hereunder as provided under Section 8 of this Agreement;

5. Kaiser does hereby agree to indemnify and hold the Division harmless from any claim, demand, liability, cost, charge or suit brought by a third party, as a result of Kaiser's failure to abide by the terms and conditions of the reclamation plans as set forth in the Utah Mining Properties permits and from any failure to comply with the terms of this Agreement;

6. The Division shall give Kaiser notice of any claim and any legal proceedings within the scope of the indemnity set forth at Section 5;

7. Upon successful completion of part or all of the reclamation obligations secured hereby, Kaiser may petition the Division for a final partial or total release of this Agreement and the Mortgage, Deed of Trust and Security Agreement. Upon such petition, the Division shall timely conduct an inspection to ascertain whether the duties and obligations of Kaiser under the Act, regulations adopted pursuant thereto and the Utah Mining Properties permits have been fulfilled. If such duties and obligations have been fulfilled, the Division shall release Kaiser from part or all of its obligations under this Agreement and the Mortgage, Deed of Trust and Security Agreement and shall

record such release in the real property records of the counties in which the Mortgage, Deed of Trust and Security Agreement is recorded.

8. This Agreement shall be reviewed periodically by the Division, or reviewed upon petition by Kaiser, in accordance with the Act and implementing regulations and the amount of liability under this Agreement may be adjusted upon order of the Board of Oil, Gas & Mining or upon written agreement between Kaiser and the Division where it is clearly established that the cost of future reclamation has materially changed; and

9. This Agreement may be terminated by the Division upon sixty days prior written notice to Kaiser. Upon such written notification, and in addition to the rights retained in paragraph 10, Kaiser will have sixty days as provided by UMC 800.23(G) to obtain an alternate form of bond acceptable to the Division to secure reclamation obligations for the permits in the same amount as set forth in this Agreement.

10. If this Agreement is terminated for any reason or is breached, nothing contained herein shall be construed to waive or limit in any way the legal or equitable remedies of Kaiser and the Division, including, without limitation, Division enforcement action under the Act, implementing regulations and/or the terms of the Utah Mining Properties permits and Kaiser's right to seek protection under provisions of the U.S. Bankruptcy Code,



