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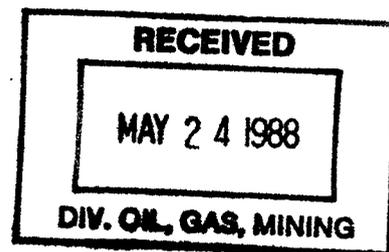
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May 23, 1988

HAND DELIVERED

Barbara Roberts, Esq.  
Assistant Attorney General  
124 State Capitol Building  
Salt Lake City, Utah 84114



RE: Sunnyside Mine Reclamation Bond

Dear Barbara:

As we have discussed, the State of Utah is seeking a collateral bond from Kaiser Coal Corporation ("Kaiser") to secure a reclamation liability of approximately \$2.2 million for the Sunnyside Mine. This reclamation liability is based on the \$3,397,349.00 bond amount set forth in Kaiser's Self Bonding and Indemnity Agreement dated November 26, 1985 less the \$1,196,936.00 reclamation liability assumed by Sunnyside Fuel Corporation ("SFC") pursuant to a Deed, Assignment and Bill of Sale and an Operating Agreement from Kaiser dated December 28, 1987, enclosed. Kaiser is currently revising the reclamation plan and estimate for the Sunnyside Mine and believes that the \$2.2 million liability can be reduced to approximately \$1.5 million.

Kaiser proposes to secure a collateral bond/reclamation agreement in the amount of \$1.5 - \$2.2 million with a Mortgage, Deed of Trust and Security Agreement covering all of Kaiser's interest in the surface estate, mineral estate, water rights and equipment located at the Sunnyside Mine. The Chase Manhattan Bank, N.A. (the "Bank"), currently has a first lien on this property; however, Hal Morris is negotiating with the Bank to obtain a subordination agreement. It is our understanding that

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the State's lien on the Sunnyside Mine will be reduced in the amount generated by a surcharge on coal production purchased by Basic Manufacturing & Technology, Inc. ("BMT"). An agreement in principle concerning the surcharge has been reached with BMT, Kaiser, the Bank and the State of Utah. As currently conceived, this agreement would require BMT to pay \$35.12/ton of coal mined, F.O.B. tipple. BMT will pay the State the difference between \$35.12/ton and the contract price/ton and has agreed to make such payments on a per train-load basis. An agreement formalizing this understanding should be drafted by the State of Utah.

A suggested form of Mortgage, Deed of Trust and Security Agreement (the "Agreement") is enclosed. This Agreement has been amended to remove reference to the Wellington Preparation Plant and the Geneva (Horse Canyon) Mine. Intermountain Power Agency ("IPA") is currently under contract to purchase these properties and reclamation liability will be assumed by the purchaser. In addition, the liability for the Sunnyside Mine Permit is reduced to 118.2 acres of surface disturbance reflecting SFC's assumption of 169.20 acres of a total of 287.4 disturbed acres. Exhibits A, B and C of this Agreement were attached to the proposed BMT purchase and sale agreement, dated March 8, 1988, and reflect the most current description available of the Sunnyside Mine property and water rights. Also enclosed are Exhibits "G" and "I" from the BMT Agreement which list contracts which may need third-party consents to assignment.

Also enclosed for your information concerning the value of this property are the following:

- September 12, 1977 summary of Kaiser's Range Creek and Grassy Trail Creek water rights as updated in November 1985 and 1986;
- May 2, 1985 appraisal concerning Big Springs Stream and Grassy Trail Creek water rights (Big Stream rights valued at \$1,000 per acre foot - currently under contract to Sunnyside Cogeneration Associates (see enclosed agreement); Grassy Trail Creek water rights valued at \$500/acre foot;)

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- Equipment Inventory for Sunnyside Mine (salvage value approximately \$6.3 million); and
- April 28, 1988 Assessed Valuation for Kaiser reflecting total value of real property and structures in Carbon County, Utah of \$24,853,505.00.

We will provide you with additional information as it becomes available.

Very truly yours,



Denise A. Dragoo

DAD:jmc:052388a

Enclosures

cc: Hal Morris, Esq.  
Hal Lewis, Esq.  
Joe Taylor  
Hersh Saperstein  
✓ Dr. Dianne R. Nielson  
James Gratwohl