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April 26, 1988

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 MAY 20 1988
 NATURAL RESOURCES

TO: Barclay Gardner, Chief of Staff
 Office of the Governor

FROM: Dianne R. Nielson, Director

J.L. Anderson for

RE: Kaiser Coal Bankruptcy

The purpose of this memorandum is to update you on the bankruptcy status of Kaiser Coal of Utah and the potential for closure of the Sunnyside Mine.

Kaiser Coal, a subsidiary of Kaiser Steel, owns three coal mining operations in Utah in addition to operations in New Mexico and Colorado. The Utah operations are:

Sunnyside Mine

Operating coal mine
 Location: Sunnyside, Utah (east of Price)
 Employment: 250
 Payroll: \$1.1 million/month

Wellington Preparation Plant

Inactive coal preparation (for shipping) plant
 Location: Wellington, Utah (east of Price)

Horse Canyon Mine

Inactive coal mine
 Location: South of the Sunnyside Mine

Bankruptcy

Kaiser Steel and Kaiser Coal are both in Chapter 11 bankruptcy, effective 2/11/87 and 2/13/87, respectively. The state of Utah, with assistance from Attorney Herschel Sapperstein of Watkiss and Campbell, has entered a motion in bankruptcy court to lift the automatic stay which prohibits the state from taking any action to ensure reclamation responsibility on the property.

The bankruptcy court is expected to rule on this motion during the week of May 1, 1988.

Statutory Authority and Reclamation Bond

The Utah Division of Oil, Gas and Mining permits the mining operations and is required to ensure reclamation of coal mining operations. The state has primacy from the Department of the Interior. The mine contains federal and fee coal leases. State law (UCA 40-10) requires that a mine have a valid reclamation bond prior to commencing operations. If at any time, the bond ceases to be effective, the operations must cease and reclamation must commence.

When Kaiser acquired the properties, they filed a self-bond, with Kaiser Steel as a guarantor, in accordance with state statute and rules. As of March, 1987, Kaiser determined that they no longer qualified for a self-bond. Under Utah law, the Division is required to shut down the operation and require reclamation if a viable surety is not posted within 90 days. No surety has been posted after 12 months. The Division has not shut down the properties and required reclamation. The reclamation responsibility is as follows:

Sunnyside Mine.....	\$2.5 million
Sunnyside Coal Refuse Pile...	\$1.0 million
Wellington Prep Plant.....	\$3.0 million
Horse Canyon Mine.....	\$2.0 million

Pending Interest/Offers

1. Chase Manhattan, the secured creditor could foreclose or take over and operate the Sunnyside mine.
2. LA Power (IPA) is considering purchase of Wellington and Horse Canyon. Kaiser Board has approved.
3. BMT considered purchase of Sunnyside mine but withdrew offer in mid-April.
4. Environmental Power will purchase the refuse pile at Sunnyside. Bond and transfer agreement, however, are not finalized.

5. Group of investors represented by Dale Carpenter and Leon Smith are interested in purchasing Sunnyside, but seem far from finalizing a deal or posting a bond.

Considerations for State

1. The Sunnyside Mine is more saleable if it is operating, because the workforce contracts are intact.
2. Sunnyside is the only operating western mine with metallurgical coal which is capable of providing coal to the BMT Geneva Steel Mill. BMT is, however, also purchasing coal from Pennsylvania, at \$53/ton, or a blended cost of \$40/ton. In about one year, BMT may be able to buy coal from a Colorado mine. Shutting down Sunnyside will not shut down BMT, but it will increase their operating costs, at least short-term.
3. If the state does not take action to enforce its law, i.e. secure a bond or require immediate closure and reclamation, the federal government will take such action.

Potential Action

1. Bankruptcy court denies relief from the automatic stay.
Division action: Reassess alternatives.
2. Bankruptcy court grants relief from automatic stay.
Division action:
 - a. Take final action with potential purchases to secure reclamation bond, transfer properties, and allow operations to continue within the law.
 - b. Require reclamation bond be posted or that operations cease and reclamation commence immediately. This will not have a practical impact on the inactive operations. It will have a significant impact on the operating Sunnyside Mine.

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There seems to be a high possibility that Kaiser Coal wants to use up the metallurgical coal (which will only last about 18 more months), get what they can out while putting as little as possible back, and then walk away. Short term, continued operations under current conditions, may look good but long term getting a buyer after that

the metallurgical coal is gone and large reclamation costs are left will be difficult if not impossible -
I think potential action 2-b is the best long term solution -