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Geneva Reluctantly Agrees to Buy Kaiser Coal's Sunnyside Mines

By Joe Rolando
Tribune Business Writer

Geneva Steel, which bought the Geneva Works steel mill for $40 million last August, has submitted the only bid to acquire Kaiser Coal Corp.'s Nos. 1 and 3 mines and its North and South coal reserve lease tracts.

The mines and the reserve lease tracts are located in Sunnyside, Carbon County.

Coal from the Kaiser property would give Geneva Steel a dependable supply of high-volatility metallurgical coking coal to blend with the medium-volatility metallurgical coking coal it purchases from Colorado-based Mid-Continent Resources. Mid-Continent is the only operating coal mine producing medium-volatility metallurgical coking coal in the West.

Geneva Steel heats the blended coal in airtight ovens from which only gases and tar are driven, yielding coke, one of the principal ingredients of steelmaking. The gases and tar are used as fuel in other processes at the steel mill.

Robert J. Grow, vice president and general counsel for Geneva Steel, said his company, which employs about 1,800 people at Orem, uses about 1.25 million tons of metallurgical coking coal a year.

While there are mines in Colorado from which Geneva Steel could buy the kind of coal Kaiser provides, the company would rather purchase it from a Utah operation, said Mr. Grow. Kaiser's Sunnyside operations are the only mines in Utah whose coal is able to produce the kind of coke Geneva Steel needs, he said.

"Also, the market for metallurgical coking coal of the kind produced by Kaiser's Sunnyside operation has shrunk dramatically in the Western U.S. with the closure of all of the fully integrated steel mills west of the Mississippi River except Geneva Steel," said Mr. Grow. "As a result, the market for the Sunnyside coal is limited. That's why no other potential purchaser has stepped forward."

Mr. Grow said another reason may be that aside from Geneva Steel, Kaiser's Sunnyside operation has only two other major customers, both California industrial concerns whose contracts expire in 1989. He added, "Given the softness of the coal market it may be difficult to obtain extensions or renewals of those contracts."

Ezra B. "Bud" Patten, senior vice president and chief operating officer, at Geneva Steel, said since Geneva Steel opened Sept. 1 it has bought every ton of coal Kaiser's Sunnyside operations have produced. "And we'd ask for more every week if we could get it."

But Mr. Grow said Kaiser has been unable to produce enough coal to meet Geneva Steel's demand.

Joseph A. Cannon, chairman and president of Geneva Steel, said the insufficient coal production at the Sunnyside mines "really baffles us because you're looking at a large coal buyer [Geneva Steel], larger than anyone else they have."

Thus, Mr. Cannon said Geneva Steel's bid to purchase the Kaiser properties is more akin to a "shotgun marriage."

Mr. Grow added if a company running those mines was willing to sell Geneva Steel the coal on a long-term basis "we'd kiss this [deal] goodby."

Both Sunnyside Nos. 1 and 3 mines have a longwall, a machine which produces more coal from Utah underground mines than any other. A longwall uses a rotating cutting drum which is mechanically pulled back and forth across a face of coal usually several hundred feet long. The loosened coal falls onto a conveyor.

Mr. Grow said Geneva Steel is in the "due diligence phase" of acquiring Kaiser's Sunnyside properties. He said that means it is evaluating the properties' coal reserves, liabilities, management, operations, finances, suppliers and potential customers to see if the mine can be operated economically on a long-term basis.

While Geneva Steel officials have not released the amount they are offering for the Kaiser property, Mr.

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Geneva Steel Reluctantly Agrees to Buy Two of Kaiser Coal's Sunnyside Mines

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Grow said a "significant" amount of the purchase price will be related to the assumption by Geneva Steel of certain liabilities. These include liabilities for black-lung claims that arise with respect to past operations and reclamation of the property.

Complicating Geneva Steel's bid for Kaiser Coal is the filing Feb. 13, 1987, by that company and four other coal subsidiaries of Kaiser Steel Corp. for protection from creditors under Chapter 11 of the federal bankruptcy code. Kaiser Steel filed for Chapter 11 protection a day before its coal subsidiaries.

Thus, Geneva Steel has presented its bid to Kaiser Coal and the unsecured creditor committees of that company and Kaiser Steel.

Mr. Grow said, "We've had one round of negotiations and expect to begin another one shortly to finalize the contract. And then it will be submitted to the [bankruptcy] judge."

But that won't occur for at least another 30 days, giving a team of experts dispatched by Geneva Steel an opportunity to evaluate the Kaiser property, said Mr. Grow.

However, Geneva Steel's purchase of the Kaiser property seems to weigh heavily on the outcome of Pittsburgh and Midway Coal Mining Co.'s bid to purchase Kaiser's York Canyon mining complex near Raton, N.M., and other adjacent properties, said Mr. Grow.

He said hearings at which some objections to the purchase of the New Mexico mines were expected started Wednesday and have been continued to Feb. 17 in Denver.

"As that fight goes on we'll watch it closely and be waiting for the outcome," said Mr. Grow.

Mr. Patten said engineering results are inconclusive in Kaiser's No. 1 and 3 mines so it is unknown just how much coal is left there.

Mr. Grow quoted mine management as saying there likely is enough coal in the two mines to satisfy Geneva Steel's needs for possibly 10 years. But he added, "We're having people examine those assumptions."

When Geneva Steel bought the Orem steel mill from USX Corp. on Aug. 31, it tried to negotiate a long-term contract with Kaiser for coal from Sunnyside, said Mr. Grow. But because Kaiser was in bankruptcy it wasn't possible to negotiate such a contract, he said.

"It became questionable whether the mine would stay open at all," he said. "And, Kaiser told us they were seriously considering not moving the longwall [in the No. 1 mine from a mined-out coal panel to the start of a new one] unless Geneva Steel made a bid to buy the mine," Mr. Grow added.

Yet, Geneva Steel at full coking capacity cannot take enough coal from Kaiser to justify operating the Sunnyside coal properties economically, said Mr. Patten. So Geneva's strong preference would be to continue marketing coal to other customers, he said.

Mr. Grow added coal production costs from the Kaiser operation are significantly higher than at other Utah coal operations. He said Sunnyside's mines are extremely deep and the longwall in the No. 3 mine doesn't recover coal as good as the longwall in the No. 1 mine.

The history of the Sunnyside coal properties stems to 1882 when the Denver & Rio Grande Western Railroad challenged Union Pacific Railroad by opening Carbon County's vast coal deposits. The D&RGW coal subsidiary, Utah Fuel Co., immediately began to obtain coal property, including the Winter Quarters Mine near Scofield in 1882 and the Castle Gate and Sunnyside coke properties in 1888 and 1900, respectively.

Kaiser Steel Co. acquired the Sunnyside properties in 1942 to supply its steel mill at Fontana, Calif. However, that mill has since closed.

In 1984 and 1985, Kaiser bought U.S. Steel Corp.'s Geneva and Columbia coal mines, near Columbia, Carbon County. It also bought U.S. Steel's Somerset mine in Somerset, Colo. and its coal preperation plant in Wellington, Carbon County.

Geneva Steel's bid does not include the Wellington coal preparation plant because there is sufficient coal preparation facilities near the Nos. 1 and 3 mines.

Kaiser planned to expand its coal operation near Sunnyside, eventually hoping to shift production to its lease areas north and south of the underground mines it was already working.

That aggressive expansion plan was adopted just before Kaiser's parent company was acquired in 1985 by Colorado Springs-based Perma Resources Corp.

Perma Resources purchased Kaiser Steel from a joint venture formed in February 1984 by itself and a group of investors headed by J.A. Frates of Tulsa, Okla. Perma is controlled by Monte Rial, who became Kaiser's chairman.

But in late 1986, faced with a proxy fight, Mr. Rial stepped down as chairman, and Bruce Hendry, leader of a dissent group of preferred stockholders, was installed as chairman.