



State of Utah
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL, GAS AND MINING

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March 11, 1994

Robert H. Hagen, Director
Office of Surface Mining
Reclamation and Enforcement
505 Marquette N.W., Suite 1200
Albuquerque, New Mexico 87102

Re: Sunnyside Coal Company Land Sale, ACT/007/007, Folder #3, Carbon County, Utah

Dear Bob:

I am writing to follow-up on our phone conversation this morning concerning the proposed sale of property by Sunnyside Coal Company (SCC). As you are aware, SCC proposes to sell all of the real estate now held by the Division and OSM as partial security for SCC's reclamation obligation for the total cash price of \$750,000. SCC further proposes to direct issuance of a letter of credit in the amount of \$600,000 payable to DOGM and OSM in exchange for a release of our security interest in the property.

The Division believes that the transaction as proposed is in the best interests of OSM and the Division and, therefore, recommends that OSM approve the sale.

In evaluating SCC's request, the Division's objectives are as follows:

1. To convert the collateral security interest in real property into cash or a cash equivalent,
2. to resolve the Carbon County tax lien issue, and
3. to protect DOGM's ability to pursue additional remedies in the event the currently posted security is insufficient to meet the entire reclamation obligation.

We believe the current proposal meets these three objectives.



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The property subject to this sale includes real estate both inside and outside the SCC permit area, but specifically excludes disturbed areas within the permit area which will remain in the ownership of Sunnyside Coal Company. The sale also excludes approximately 1,120 acres near the town of Sunnyside known as the Non-mountain Property. The sale of the property will include water rights appurtenant to the property, which have been attributed no value independent from the real estate. The Division and OSM will retain a security interest in the Non-mountain Property and the Grassy Trail Creek water right, which is not appurtenant to the property to be sold.

The real property proposed to be sold, known as the Mountain Property, is the subject of two separate appraisals dated September 17, 1992 and December 8, 1992. These appraisals show market values of \$920,000 and \$575,000 respectively. Based upon these appraisals, the Division attributed a total market value of \$747,500 to the real property proposed to be sold for reclamation security purposes. This value is currently offset by a higher priority Carbon County tax liability in the approximate amount of \$400,000, leaving a net secured value of approximately \$347,500.

The disadvantages of not agreeing to the proposed sale include:

1. The administrative and legal costs of foreclosure proceedings and/or appearance in bankruptcy proceedings to protect the interests of OSM and the Division,
2. carrying costs and the continuing accrual of property taxes,
3. potential CERCLA liability attaching to the real property, and
4. if foreclosed upon, it would be necessary to sell the property for a price in excess of its highest appraised value in order to net the \$600,000.

The total Sunnyside Coal reclamation security package, assuming approval of the property sale by OSM, will include: 1) A \$78,000 cash deposit account, 2) a \$600,000 letter of credit resulting from the property sale, 3) a \$480,000 letter of credit resulting from closure of the escrowed water sale, 4) a security interest in the Grassy Trail Creek water right valued at 1.3 million dollars, and 5) a security interest in the Non-mountain Property valued at \$168,000. In addition, the Division holds a letter of credit in the amount of 1.5 million dollars posted by

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Sunnyside Cogeneration Associates to secure reclamation of the Coal Refuse Pile located within the SCC permit area.

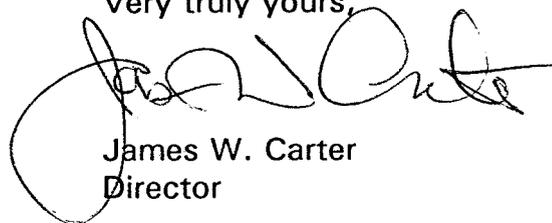
I am enclosing here two versions of the Request for Partial Reconveyance, one copy with my signature and one original for your execution, a proposed Partial Reconveyance, and an escrow agreement setting forth the details of the transaction for execution by Sunnyside Coal Company, DOGM, OSM, and Zions First National Bank. I am also enclosing a copy of a letter of credit form which DOGM and OSM approved for use in the water rights sale transaction, which I assume is still acceptable to OSM.

In the event the transaction and documents are acceptable to you, we would request that you execute the original escrow agreement and the original Request for Partial Reconveyance and return them to us to place into escrow. DOGM has executed the Request for Partial Reconveyance and will deliver it and your Request for Partial Reconveyance to Southeastern Utah Title Company, with the direction to deliver the Partial Reconveyance into escrow at Zions First National Bank. We understand that the purchaser is prepared to deliver the purchase price into escrow and that the transaction can close shortly after receipt of all the necessary documentation.

We spoke this afternoon about whether a tax lien may attach to the proceeds of a property sale. I am advised by my attorneys that it cannot, but that even if it could, Zion's Letter of Credit to us would be unaffected. Since we retain our security interest in the property until the Letter of Credit is issued, we remain secured at all phases of the transaction.

Please give me a call if you need further information or documentation or if you have any questions with regard to the Division's understandings and assumptions.

Very truly yours,



James W. Carter
Director

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Enclosures
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