

0006

UNITED STATES FUEL COMPANY

cc JWC
orig file
9/16/95
BJP.O. Box 887
PRICE, UTAH 84501(801) 472-3372
FAX (801) 472-3384

September 25, 1995

James W. Carter, Director
Division of Oil, Gas and Mining
355 West North Temple
3 Triad Center, Suite 350
Salt Lake City, UT 84180-1203Re: *Permit Number ACT/007/011;
Hiawatha Mine Complex;
Carbon and Emery Counties,
Utah*

Dear Mr. Carter:

My letter of November 23, 1994 notified the Division of Oil, Gas and Mining ("DOGM") that U.S. Fuel had signed an Agreement for the sale of the Hiawatha Mine Complex to American Fuel Corp ("AM"). One of the critical requirements of the transaction was an adjustment in the total reclamation bond amount based upon the value of reclamation performed by U.S. Fuel to that date. Your letter of February 13, 1995 established a new bond amount and, by Stipulation of March 20, 1995, the self-bond portion of the total reclamation bond was adjusted accordingly. AM proceeded to file an application for transfer of the Permit. At their meeting with Lowell Braxton and Pamela Grubaugh-Littig on Thursday, September 21, 1995 U.S. Fuel representatives were informed that all requirements necessary for approval of the transfer of the permit by the division had been met by AM, subject to the filing of the replacement reclamation bond.

My letter to Lowell Braxton of September 8, 1995 related information which had been furnished to U.S. Fuel by AM. The letter indicated that financing had been arranged for the necessary collateral required for replacement of U.S. Fuel's reclamation bond and that documentation of a commitment for a letter of credit in the total amount of the bond would be provided by September 22, 1995. However, the commitment was not available prior to the recent meeting on September 21, 1995.

Mostly by verbal communications, U.S. Fuel has tried to keep the division informed of the status of the sale transaction. The purpose of this letter is to help the division understand that its interests are still being served and the potential benefits of the transaction enumerated in the November 23, 1994 letter are within reach.

To be perfectly frank, U.S. Fuel had expected the substitute reclamation bond to be posted and the Permit transfer to AM approved within the first half of 1995. However, this transaction has proven to be more complicated than anticipated. Nonetheless, the sale is still progressing steadily toward completion. Substantial amounts of manpower, effort and money have been expended by the parties involved. The anticipated benefit to the parties and to DOGM are undeniable and, based upon AM's representation, by October 31, 1995, a substitute reclamation bond commitment should be in place.

Please be assured that U.S. Fuel is committed to reclaiming and maintaining the property until the permit is transferred. U.S. Fuel employs a five man work force at the property. While this asset sale has been underway, U.S. Fuel has finished the regrading of #4 slurry pond and all but completed the regrading of #5 slurry pond contemporaneous with its ongoing coal sales. The following are examples of the ongoing reclamation work performed in the last three months:

sediment ponds 003, 004, 005, 006 and 007 were cleaned and cleaning of pond 008 was started;

twenty-five thousand tons of coal slurry were removed from #5 pond in preparation for grading of the outslope;

two large benches were cut in the #5 pond outslope to reduce the final grade to less than a five-to-one slope;

all thistles from the town to middle and south fork canyons (about five miles) were sprayed;

over a mile of the Mohrland pipeline was replaced to prevent future leaks and related erosion; and

normal maintenance items like ditch repair, water sampling and miscellaneous upkeep were continually performed.

U.S. Fuel has calculated the approximate value of the described work performed in the last three months to total \$135,000.

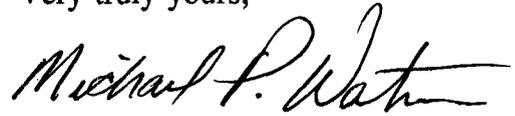
U.S. Fuel's work plans are to finish cleaning the 008 sediment pond, grade the #5 pond outslope, place topsoil on the #4 slurry pond area and complete the first phase of the water pipeline project. In the interim, Rod Davis, U.S. Fuel's agent at the site, will continue to work with the division's inspectors to assure proper maintenance of the property.

U.S. Fuel understands and has no illusions about DOGM's concern about the existing self-bond. However, we don't consider that concern as relating in any way to U.S. Fuel's commitment that the actual reclamation will be accomplished in full. In its discussions with AM on this matter, U. S. Fuel has made it clear that AM must furnish the written commitment for

the substitute bond no later than October 31, 1995 or U. S. Fuel will be required to provide additional assurance to DOGM of funding sufficient to complete the reclamation plan to the extent of the self-bond amount.

In view of U. S. Fuel's good faith efforts, it is requested that DOGM continue to exercise forbearance in relation to the bonding issue to permit the U.S. Fuel/AM transaction to be completed to the benefit of all parties concerned, including the State of Utah

Very truly yours,

A handwritten signature in black ink, appearing to read "Michael P. Watson". The signature is fluid and cursive, with a long horizontal stroke at the end.

Michael P. Watson
President

cc: Lowell Braxton
Pamela Grubaugh-Littig