

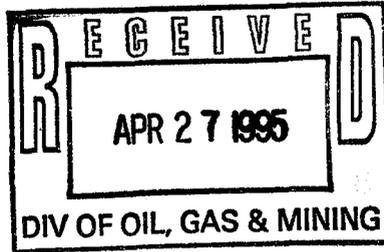
007/011 #2

0011

EMERSON & BAYER
ATTORNEYS AT LAW
301 EAST MAIN STREET, SUITE 1100
LEXINGTON, KENTUCKY 40507

C. DAVID EMERSON
BENNETT E. BAYER
JAMES M. HERRICK
KENNETH R. KENKEL

FACSIMILE
(606) 253-9271
TELEPHONE
(606) 254-3805
(606) 253-1502



April 24, 1995

Mr. Daron Haddock
Permit Supervisor
State of Utah
Department of Natural Resources
Division of Oil, Gas, and Mining
355 West North Temple
3 Triad Center, Suite 350
Salt Lake City, UT 84180-1203

Re: American Fuel Corp. Permit Transfer Application
Hiawatha Complex
U.S. Fuel Company ACT/007/011

Dear Mr. Haddock:

In reference to your memo of April 18, 1995, from Paul Baker, Reclamation Biologist, regarding the permit transfer application from United States Fuel Company to American Fuel Corp., I would like to address the two points of concern within Mr. Baker's memo.

First, you will note under his Identification of Interest, Violation Information, and Right of Entry Information, he has noted under Finding No. 1, a clarification is required regarding the 466.66 acres in Section 18, Township 15 South, Range 8 East.

On December 13, 1985, a Purchase and Sale Agreement was entered into between United States Fuel Company and Plateau Mining Company. This Purchase and Sale Agreement specifically provided for a conveyance of the coal located within Section 18, Township 15 South, Range 8 East, SLM, to Plateau Mining Company from United States Fuel Company. The transaction contemplated a conveyance only of the coal and would have retained all other property rights in United States Fuel Company. Additionally, the Purchase and Sale Agreement had an option for reconveyance of the coal to United States Fuel Company in the event that Plateau Mining Company did not complete the removal of all coal within a 15-year period from the date of the instrument of conveyance. At that point in time U.S. Fuel (which will now be American Fuel Corp. by virtue of the transfer to American Fuel Corp.) will have the option to have all coal property reconveyed to U.S. Fuel but not an obligation. Regardless, the statement within 112.800

Mr. Daron Haddock
April 24, 1995
Page Two (2)

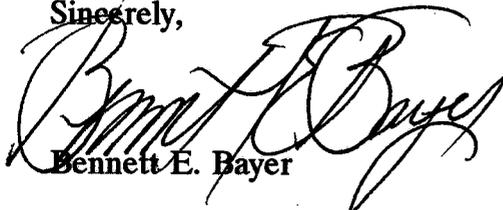
that American Fuel Corp. retains the surface and mineral rights to 466.66 acres of land in Section 18, Township 15 South, Range 8 East, SLM, is correct, in that all rights other than the coal have been retained. The coal rights were specifically severed from the fee estate and does not divest United States Fuel Company, nor American Fuel Corp., from those other rights associated with ownership of the property.

As to the second exception, which questions that certain rights of entry were purchased with U.S. Fuel but "with limited exception," Mr. Baker asks for an explanation of these exceptions.

Section 114.100 shows that the application specifically states that "pursuant to that agreement, all rights to the lands and minerals owned by United States Fuel Company (with limited exceptions) were transferred, by deed, to American Fuel Corp." What this sentence says, is that all lands owned by United States Fuel Company in Emery and Carbon Counties were transferred to American Fuel Corp., with limited exceptions. The specific limited exceptions had to do with two ranches which will be retained by United States Fuel Company and which ranches are not contiguous to the permitted properties. So when the statement was made that "all rights to the lands and minerals owned by United States Fuel Company (with limited exceptions) were transferred," it means that the two ranches were retained by United States Fuel Company and are not relevant to consideration of right of entry information to the permitted sites.

I hope this letter has clarified these two points for you, and if there is anything further which you need from me, please do not hesitate to contact me. As to the other matters, including the bond and liability insurance, those will be provided, along with the reclamation agreement, prior to the transference of any permit.

Sincerely,



Bennett E. Bayer

cc: American Fuel Corp.
American Fuel Corp. Operations
United States Fuel Company

BEB/ml

R645-301-522 COAL RECOVERY

It is in the interest of U.S. Fuel to maximize the recovery of coal resources. As can be readily observed from Exhibit V-1 the majority of reserves have already been extracted from the permit area. The extended life of operations is directly tied to the maximum recovery of remaining reserves. U.S. Fuel has employed the room and pillar method of coal extraction and plans to continue its use. Figure V-1 shows U.S. Fuel's current development and pillar recovery method. This method is designed for maximum safe recovery of coal resources. State of the art room and pillar mining equipment is utilized. Multiple seam mining has been accomplished at several locations and though more costly due to adverse geological and engineering conditions is projected for future development of remaining reserves.

A large portion of U.S. Fuel's coal resources are contained in Federal leases. A major condition of each lease agreement is maximum recovery of resources. Mine workings in each lease are inspected on a regular basis by Bureau of Land Management personnel experienced in underground coal mining methods.

By letter to OSM dated May 8, 1984, the Chief, Branch of Mining Law and Solid Minerals, BLM, Salt Lake City makes the following comments regarding U. S. Fuel's Resource Recovery and Protection Plan: "We have determined that the Resource Recovery and Protection Plan (R2P2) or underground mining part of the subject PAP on file in this office and listed above, conforms with 43 CFR 3482.1(c) rules and regulations. The proposed coal recovery procedures should safely obtain maximum economic recovery of the coal resource within the plan area by following the planned technology and by using the types of equipment listed in the plan. The R2P2 part of the PAP is adequate for BLM administration of the associated Federal coal leases".

Justification for not recovering coal deposits that may be detrimentally affected in terms of future recovery by the proposed operations include the following:

- A. Seams that are too thin to be economically minable given existing or reasonably foreseeable technology.
- B. Coal seams separated by insufficient rock intervals to allow safe mining above or below worked out areas.
- C. Seams that are relatively thick but not extensive, and isolated by thin coal which would make development cost prohibitive.

In the interest of reducing the amount of substandard coal material that would have to be buried or otherwise disposed of during final reclamation, U.S. Fuel or its customers may utilize a portable screening, crushing and blending facility to be located within the Hiawatha processing plant and slurry impoundment disturbed areas depicted on Exhibit V-9.

The screening, crushing and blending facility will attempt to remove foreign objects, i.e. metal, large rocks, etc., and size coal to the final user specification. U.S. Fuel may elect to sell coal or waste to the customer as needed. In order to produce a salable or economic product it may be necessary to import additional coals for the purpose of blending, to meet a customer specification. In addition, material from the screening operation may be loaded on railcars at the Utah Railway Yard or trucks at the site. The facility may be relocated within the specified area from time to time at the direction of U.S. Fuel in order to minimize cost and facilitate reclamation efforts.

R645-301-523 MINING METHOD

Exhibit V-1 shows mine workings developed in the Hiawatha area from the beginning of mining in the early nineteenth century to the present. The current permit boundary reflects the sale of approximately 467 acres of coal lands to Plateau Mining in December, 1985 and approximately 6,500 acres to Intermountain Power Agency in April, 1986.

Coal reserves held in fee and Federal lease rights are currently accessible through workings in three mines. These are the King 4, King 5 and King 6 mines which will be discussed separately.

KING 4 MINE

The King 4 mine is located in sections 13, 24 and 25, T.15S., R.7E.; and sections 18,19,20, and 30, T.15S., R.8E., SLBM. It is bounded by the Bear Canyon fault on the west, property boundaries on the north, coal seam outcrops on the east and mined-out workings of the King 1 mine on the south. Portals are located in the Middle Fork canyon of Miller Creek, 3 miles northwest of Hiawatha. The mine was opened in 1974 when haulage and ventilation entries were driven outward from the northern extension of the King 1 mine to the B seam outcrop in Middle Fork. Once portals were established, the King 1 mine, which had been mined out in earlier years, was sealed off and abandoned to the south. A set of entries which connect with South Fork were left open and maintained for access and ventilation but are now sealed.

The mine area initially comprised 3,000 acres, however a sale of approximately 467 acres of fee land to Plateau Mining in 1985 reduced this area to 2,693 acres. At the present time the mine contains 1,783 acres of fee land, 720 acres are held under Federal Consolidated Lease No's. U-026583 and U-05826; 160 acres are under Federal lease No. U-51923 and 30 acres are under Federal lease No. SL-069985.

In April of 1991 production was cut back from three production shifts per day to one production shift per day. Current production is 120,000 tons per year. It is not anticipated that this production will change over the next few years. No changes in mining methods have resulted due to decreased production. Table V-2 gives a summary of mining methods and estimated potential productivities for all of U.S. Fuel Company's proposed and operating mines.