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United States Department of the Interior

BUREAU OF LAND MANAGEMENT

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Utah Division of Oil, Gas and Mining
Attn: Mr. Lowell Braxton
1994 West North Temple, Suite 1210
P.O. Box 145801
Salt Lake City, Utah 84114-5801

Re: Royalty Rate Reduction Requests for the Horizon Mine and the Andalex Tower Division (Aberdeen and Pinnacle Mines)

Dear Mr. Braxton:

This letter is to summarize the discussions that were held on March 21, 2001, between your office and the BLM Utah State Office to satisfy the requirement of consultation with the Governor concerning Royalty Rate Reduction (RRR) applications on Federal coal leases. In our discussions there was a consensus that the applications should be approved and that the state of Utah felt that the approval would be in the public interest. The applications are summarized below.

BLM has received a RRR application for the Horizon mine on November 5, 1999. This mine has had severe water problems. The geological history of the area indicates that there is a high possibility of numerous faults in the property. The previous operators of the Horizon Mine showed losses for every year that it was in development. The application requests a RRR on the entire Federal coal lease. BLM has determined with the information that is available that the coal is not economically recoverable and a RRR is appropriate. BLM will elect to limit this RRR to the first 3 panels and evaluate the production costs an annual basis to ensure the RRR is necessary. There is about 900,000 tons that is being considered for the RRR. If the coal was not mined there would be no revenue stream to the Federal government and eventually to the state of Utah. The BLM is recommending a RRR from 8% to 5%, therefore, this reduction will actually increase revenues to the federal and state government by $720,000.

Andalex Resources applied for a RRR on September 8, 1999. Based on a letter from BLM, Andalex revised their application and it was received by BLM on November 21, 2000, to include only fringe area continuous miner coal extraction. BLM has determined that these coal resources are uneconomical at the present federal royalty rate and they will not be mined if a royalty rate reduction is not granted. Most of these areas have already been deleted from the reserve base in the Resource Recovery and Protection Plan based on poor conditions. There are approximately 4.9 MM tons of coal that would be recovered if all coal is mined. Plans have not been submitted to MSHA as of this date and there may be further reduction in reserves based upon their plan approval. BLM is recommending that a 4.8% Royalty Rate be set for all areas. This is a weighted average for all coal based upon the royalty rates that the company has applied for. Because this coal has already been taken out of any recovery plans this will increase the revenues to the federal and state government by $5,524,570 based on 4,889,000 tons.

BLM is recommending that these applications be approved for RRR to promote the mining of coal in Utah. For further information contact Mr. Stan Perkes, (801) 539-4036.

Sincerely,

Sally Wisely

Sally Wisely
State Director