



State of Utah

Department of  
Natural Resources

Division of  
Oil, Gas & Mining

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*Executive Director*

LOWELL P. BRAXTON  
*Division Director*

MICHAEL O. LEAVITT  
*Governor*

OLENE S. WALKER  
*Lieutenant Governor*

July 2, 2004

OUTGOING

TO: Bob Morgan

FROM: Lowell Braxton *LPB*

SUBJECT: Results of BLM's Summit Coal Lease Tract Sale 6-24-04

*d/007/0019 OK*

Bob, the OGM Director traditionally serves on the BLM coal leasing sale panel. In this role I either attend the sale or send someone to represent me. We are fortunate to have the dialogue with BLM that allows a state position to be reflected on issues such as this.

In the case of the attached coal sale, I discussed the sale procedure with my attendees, reviewed a draft BLM recommendation and provided concurrence to BLM's direction. While not a typical sale, the Summit Sale suggests the future of Utah coal mining will be under deeper cover, and will involve increasingly complex engineering scenarios. These scenarios are reflected in the ultimate sale price and royalty rates, each of which has a bearing on revenues to local, state and federal government. In the case of this sale, I concurred with reduced royalty rates, and a lower than typical sales price because failure to recognize adverse mining conditions could have resulted in no mining of this particular reserve.

Please advise if additional information on this particular sale would be helpful to you or to the GOPB.

LPB:mep  
cc: R. Daniels, OGM  
M. Wright, OGM  
Enclosure



# United States Department of the Interior



## BUREAU OF LAND MANAGEMENT

Utah State Office  
P.O. Box 45155  
Salt Lake City, UT 84145-0155  
<http://www.blm.gov>

IN REPLY REFER TO:  
UTU-79975  
(UT-923)

JUN 30 2004

### Memorandum

**To:** State Director

**From:** Deputy State Director, Division of Lands and Minerals  
Chairman of the Coal Sale Panel

**Subject:** Post-Sale Recommendations Regarding the Competitive Leasing of  
Summit Creek Coal Lease Tract, UTU-79975, LBA by Andalex  
Resources, Inc.

The Utah coal sale panel met on Thursday, June 24, 2004 at 1:30 p.m. and reconvened on Monday, June 28, 2004 at 2:00 p.m., to consider the competitive coal lease sale for the Summit Creek coal lease tract. The sale for this tract was held at 1:00 p.m. on June 24, 2004 at the Utah BLM Office in Salt Lake City.

At the sale, a single bid was submitted for the tract by: Andalex Resources, Inc., for the applicant for the lease by application (LBA). The bid was for \$486,400 or \$692.16 per acre. Based on the recoverable coal tonnage determined by BLM of 3.0 million tons, this is \$0.16/recoverable ton.

The bid meets the statutory minimum of \$100 per acre and was as the sole bid for the tract. A copy of the sale minutes are attached to this memo as Appendix A.

The coal sale panel consisted of:

	In Attendance	
	24 June	28 June
Coal Sale Panel Chairman/ Solids Branch Chief	Jim Kohler	x
Washington Office Mining Eng	Bill Lesage	x (phone)
Mining Engineer	Stan Perkes	x
Geologist	Gregg Hudson	x
Mining Eng/Financial Analyst	Jeff McKenzie	x
State of Utah Representative	Ron Daniels	x
State of Utah Representative	Jim Smith	x

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DIV. OF OIL, GAS & MINING

The coal sale panel deliberations considered the conduct of the sale, the Presale Estimate of Value for the tract by the Utah Evaluation Team, the bidder's qualifications, the bidder's motivation and interest, including potential for bypass of any Federal coal.

#### 24 June 2004 Coal Sale Panel Meeting

The panel found the following at the first sale review meeting:

- The sale was conducted in accordance with BLM regulations in 43 CFR 3422 and BLM Handbook 3420-1.
- The sole bid was below the Presale Estimate of Value of a positive \$0.19 / recoverable ton (Figure 1). The Presale Estimate of Value included consideration of:
  - The adverse mining conditions:
    - High inflows of methane gas
    - Deep mining at some 3000 feet – depths not attempted before in Utah
    - Use of a special mining technique of developing both side of each longwall panel
  - The lease sale would probably not be in a competitive setting. This tract is an extension to an existing operation.
  - Prior market commitments by the bidder, that at least initially limit the bidder's ability to market the coal produced at current higher prices.
  - A royalty rate reduction following the lease issuance from 8% to 5%. This conclusion was due to:
    - As situated, the coal would probably be bypassed. This tract is on an edge of the coal seam. It is surrounded by private coal to the west, low coal or unminable to the east, a Federal Tract to the south that has been previously mined and deeper coal resources to the north. It is apparent that this coal could be bypassed by the operator thus wasting this Federal portion.
    - Mining at these depths is new and experimental at significant risk to the operator.
    - The financial effects of the high methane gas levels and the first time mining at these depths are not well understood and represent significant financial risk.
  - The first meeting of the coal sale panel determined that a subsequent royalty rate reduction was highly probable but not certain and could be the standard 8%. An 8% royalty results in a value of negative \$0.194 / recoverable ton (Figure 2). The coal sale panel determined the probability of a royalty rate reduction (to 5%) in 90% likely to occur.
  - The coal sale panel did express concern that the value per recoverable ton is much lower than recent bids and could become a precedent for future coal lease sales at depths of some 3000 feet. However, on further consideration it was concluded that this will not be the case because:
    - This is a new mining experience in Utah due to the deep mining conditions.
    - If successful, the experimental mining will lead to new mining techniques that can

become new industry stands. (Due in large part to the efforts to gather data and learn from the experience.)

- o Successful recovery of coal reserves at these depths will make such deep coal resources also attractive to other operators leading to more competitive lease sales in the future.
- o Although mining at these depths could require more materials and labor resulting in higher costs, the market will adjust to compensate for the higher costs as more operators find it necessary to follow this lead.

### 28 June 2004 Coal Sale Panel Meeting

The coal sale panel reconvened to review the findings of the BLM engineering staff. The staff presented an auxiliary probability analysis based on a 10% risk of the company not receiving a royalty rate reduction (although slight). This resulted in an adjusted value for the recoverable coal reserves of a positive \$0.151/recoverable ton (Figure 3). This adjusted value is slightly under the sole bid received at the tract sale.

The coal sale panel unanimously approved a motion to accept the bid of \$0.16/ recoverable ton for the Summit Creek Tract, UTU-79975.

### Recommendation

The coal sale panel recommends accepting the Andalex Resources, Inc. bid for the Summit Creek Tract because it slightly exceeds the final adjusted coal sale panel Estimate of fair market value (FMV). Jim Smith, representing the State of Utah, discussed the recommendation to accept with Lowell Braxton, Director of Utah Division of Oil, Gas, and Mining who concurs with this recommendation.

**Kent Hoffman**

\_\_\_\_\_  
Deputy State Director, Lands & Minerals

**I CONCUR:**

**/s/ Sally Wisely**

\_\_\_\_\_  
State Director

**I DO NOT CONCUR:**

\_\_\_\_\_  
State Director

### 2 Attachments

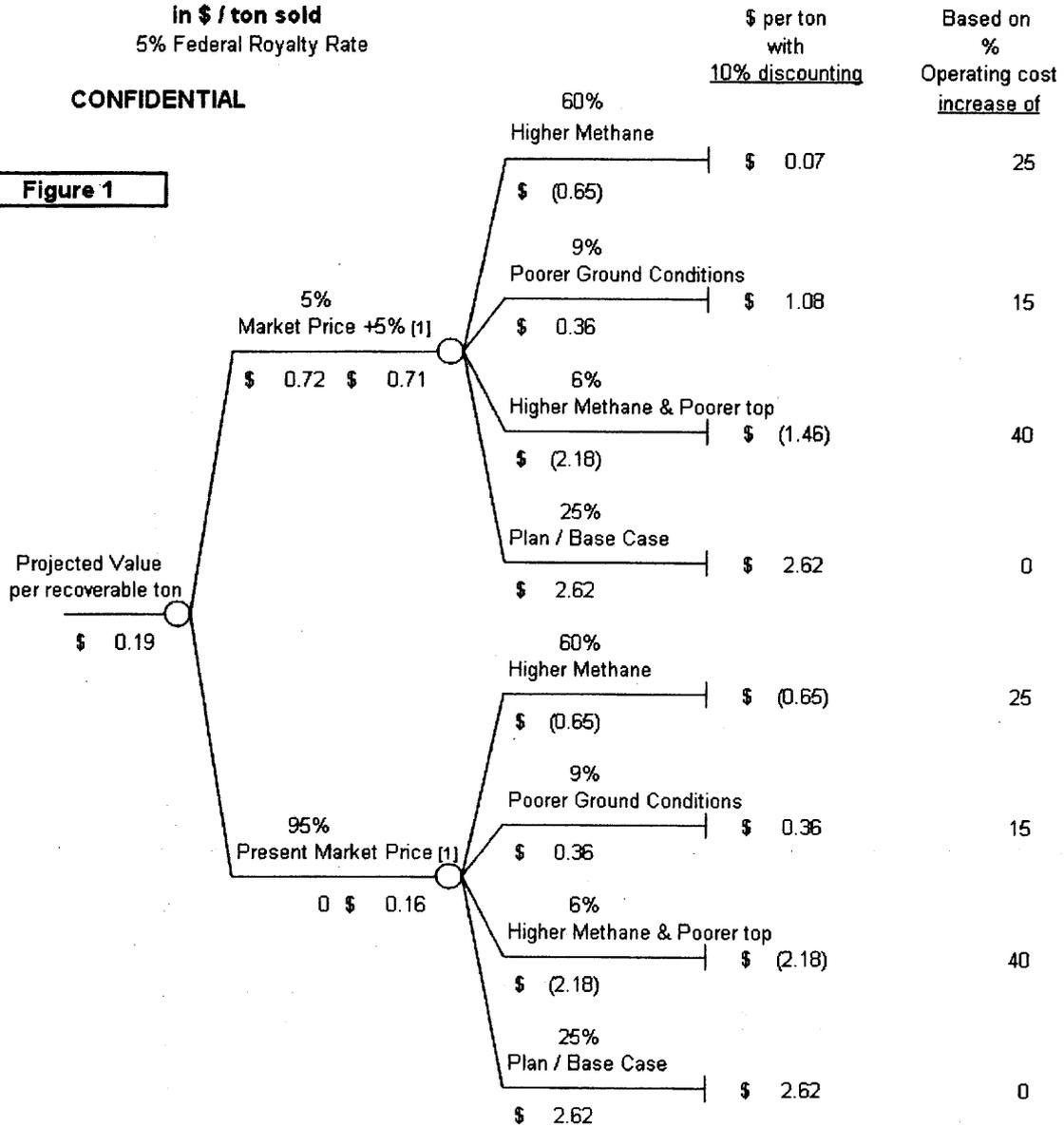
1. Projected Value of Summit Creek Tract Coal in \$ /ton sold (Figure 1-3)
2. Appendix A: Lease Sale Minutes

cc: Lowell Braxton  
Director of Utah Division of Oil, Gas, and Mining

**Projected Value of Summit Creek Tract Coal**  
**in \$ / ton sold**  
 5% Federal Royalty Rate

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**Figure 1**



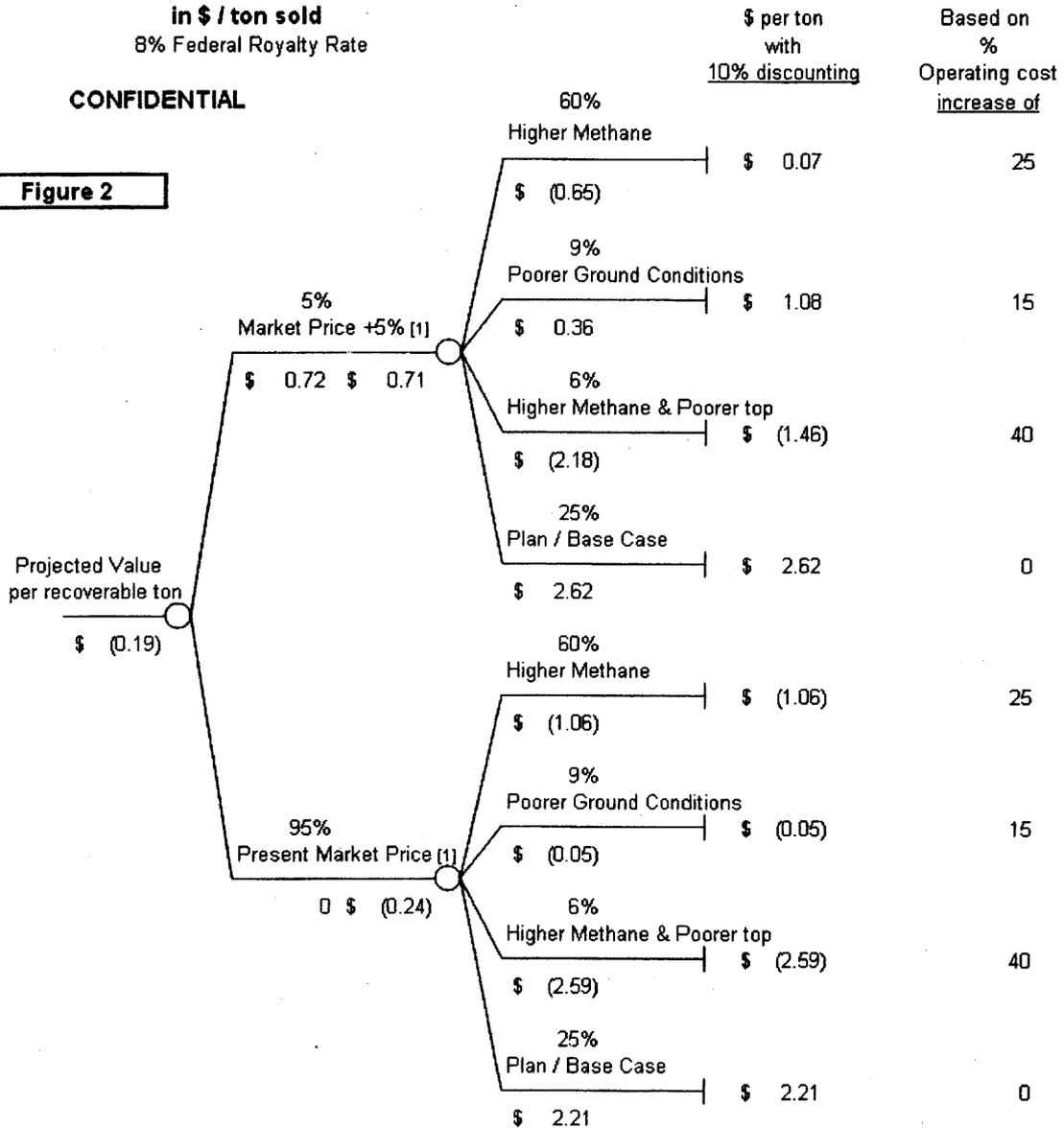
[1] For this mine, not the overall coal industry in the Price area.

25-Jun-04 ;JDM

**Projected Value of Summit Creek Tract Coal**  
**in \$ / ton sold**  
 8% Federal Royalty Rate

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**Figure 2**



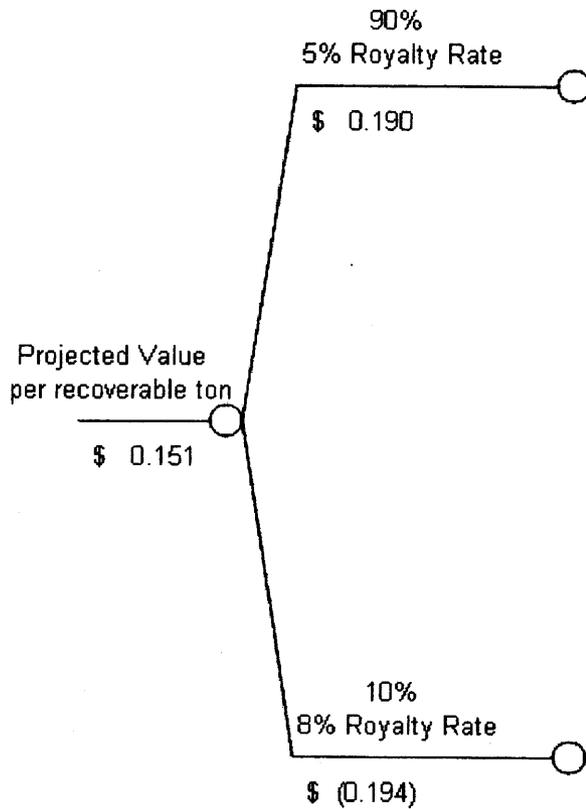
[1] For this mine, not the overall coal industry in the Price area.

25-Jun-04 JDM

Projected Value of Summit Creek Tract Coal  
in \$ / ton sold [1]

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Figure 3



[1] Three decimal places shown to illustrate differences, not to imply that level of accuracy.

25-Jun-04 JDM

Appendix A  
Lease Sale Minutes  
for the  
Summit Creek Tract  
UTU-79975