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United States Department of the Interior

BUREAU OF LAND MANAGEMENT

Utah State Office
P.O. Box 45155
Salt Lake City, UT 84145-0155
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IN REPLY PLEASE REFER TO:
43 CFR 3485.2 (c), UTU-70075, UTU-66060, (UT-923)

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DIV. OF OIL, GAS & MINING

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AUG 03 2005

Mr. Sam Quigley
West Ridge Resources, Inc.
P.O. Box 1077
Price, Utah 84501

Quigley
2/007/0019

Ref: Andalex Letter of 23 May 2005: Modification to Royalty Rate Request of 5.0% to 2.0% for the Aberdeen Mine Federal Lease Numbers UTU-70075 and UTU-66060

Topic: Requirements for obtaining Category 3 Royalty Rate Reduction: Unsuccessful Operations.

Dear Mr. Quigley:

Applications for royalty rate reductions must encourage the greatest ultimate recovery and be in the interest of conservation of natural resources. Royalty rate reductions may only be granted when it is necessary to promote development or whenever the leases cannot be successfully operated under the lease terms (see attached document p. 7). Under ordinary circumstances the minimum royalty rate for underground coal is 8 percent. In the case of unsuccessful operations, royalty rates may be reduced to as low as 2 percent. Under no circumstances will royalty rates be lowered below 2 percent (see attached document p. 13).

As you mentioned in your letter, your application requires further clarification to meet 43 CFR 3485.2 (c). Applications for category 3 royalty rate reductions, unsuccessful operations, must show that the coal mining operations cannot be operated successfully under the terms of the lease. The following must be fully addressed.

1. Detailed geologic and engineering information must be provided in order to understand the current and projected (two or more years) conditions. This would include but not be limited to the past and ongoing difficulties with the handling of the methane inflows and what affect it will have for the next 2 years, and ventilation and de-gas plans to support the application.

2. A historical financial analysis and a projected financial analysis must accompany the application. Financial data must show the lease to have operated at a loss for the last 12 months and project it to continue to operate at a loss for the 24 month period of the temporary royalty rate reduction. BLM requires an explanation of the projected market conditions for the next 2 years based on current contract projected sales and any potential new contract sales. A full disclosure of contract sale prices and length of contracts must be made.

3. An independent licensed certified public accountant (CPA) must prepare a report expressing his opinion as to the accuracy of the financial reports (see attached document p. 34). This report must be submitted to BLM when it is completed. BLM recommends that the CPA be well experienced in this field.

In addition, the application must state the royalty rate desired, Federal lease number(s), lease record title holder(s) and be filed in triplicate. A statement by the applicant or the applicant's representative certifying that the bonus, rent and royalty payments are up to date must also be included. No application will be approved unless the Mineral Management Service verifies that the royalty payments on the lease are in good standing. Please refer to pages 32 - 44 of the attached document for details of application content.

Additional information may be requested before a decision can be made. Qualified applications that meet the financial test for unsuccessful operations will have their royalty rate reduced to the higher of either the level requested by the applicant or a level determined by the State Director that will result in a net lease income of zero over the term of the temporary royalty rate reduction, but in no case reduced to less than 2%.

A copy of the "Royalty Rate Reduction Guidelines for the Solid Leasable Minerals" is enclosed for your information. If you have any questions please contact Jeff McKenzie of my staff at (801) 539-4038.

Sincerely,

JAMES F KOHLER

James F. Kohler
Chief, Solid Minerals Branch

Enclosure:

Royalty Rate Reduction Guidelines for the Solid Leasable Minerals

cc: UT-070, Price, Utah
Utah Division of Oil Gas and Mining
1594 West North Temple, Suite 1210
Salt Lake City, Utah 84114-5801