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United States Department of the Interior

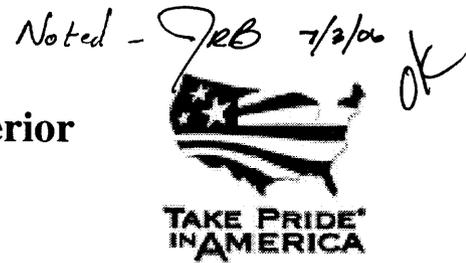
BUREAU OF LAND MANAGEMENT

Utah State Office

P.O. Box 45155

Salt Lake City, UT 84145-0155

<http://www.blm.gov>



IN REPLY REFER TO:

3425

UTU-81893

(UT-923)

JUN 26 2006

CERTIFIED MAIL – Return Receipt Requested

Mr. John Baza, Director
Utah Division of Oil, Gas and Mining
P. O. Box 145801
Salt Lake City, Utah 84114-5801

*Ancoming
@ 100710019*

Dear Mr. Baza:

This office held a competitive coal lease sale on June 8, 2006. ANDALEX Resources, Inc. was declared the highest qualified bidder for the Kenilworth Tract, assigned serial number UTU-81893, described as follows:

T. 12 S., R. 10 E., SLM, Utah
sec. 26, N $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$;
sec. 27, S $\frac{1}{2}$;
sec. 34, S $\frac{1}{2}$ NE $\frac{1}{4}$, NW $\frac{1}{4}$ NE $\frac{1}{4}$, NW $\frac{1}{4}$, S $\frac{1}{2}$.
sec. 35, NE $\frac{1}{4}$, S $\frac{1}{2}$ NW $\frac{1}{4}$, S $\frac{1}{2}$;

Containing approximately 1,760.00 acres in Carbon County, Utah.

Enclosed is a copy of the minutes of the sale. The bid of \$2,816,000 was accepted by our State Director on June 14, 2006.

Sincerely,

Kent Hoffman
Deputy State Director
Lands and Minerals

Enclosures:
Minutes of Sale
State Director's Concurrence

RECEIVED

JUN 28 2006

DIV. OF OIL, GAS & MINING



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 PLEASE REFER TO:
UTU-79975
(U-930)

JUN 14 2006

Memorandum

To: State Director, Utah

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

Subject: Post-Sale Recommendations Regarding the Competitive Leasing of Kennilworth Coal Lease Tract, UTU-81893, LBA by Andalex Resources, Inc.

Sanchez
6-13-06

J. Daniels
6/13/06

F. S. Perkes
6/13/06

AS
6/13/06

Stan
6/13/06

J. Kohler
6/13/2006

The Utah coal sale panel met on Monday 12 June 2006 at 11:00 am at the Utah BLM Office in Salt Lake City to consider the competitive coal lease sale for the Kenilworth coal lease tract. The sale for this tract was held at 1:00 p.m. on 8 June 2006 at the Utah BLM Office in Salt Lake City. At the sale, a single bid was opened for the tract by: Andalex Resources, Inc, the applicant for the lease by application (LBA). The bid was for \$2,816,000 or \$1,600 per acre. Based on the recoverable coal tonnage determined by BLM of 14.9 million tons, this is \$0.189 / 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:

Coal Sale Panel Chairman/

Solids Branch Chief	Jim Kohler
Mining Engineer	Stan Perkes
Geologist	Gregg Hudson
Mining Eng/Financial	Jeff McKenzie
State of Utah Representative	Ron Daniels

The coal sale panel deliberations considered the conduct of the sale, the Presale Estimate of Value and Recommended Minimum Bid 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.

- The sole bid was slightly below, but after rounding, equaled the recommended minimum bid based on a comparable sale, of \$0.19 / recoverable ton (Figure 1).
- The Summit Creek Tract sale in June 2004 was a “like sale” because:
 - The adverse mining conditions:
 - Probable high inflows of methane gas
 - Deep mining at some 3000 feet -- depths only mined in Utah
 - Projected use of the special mining technique of developing both sides of each longwall panel.
 - The lease sale was probably not in a competitive setting. This tract is an extension to an existing operation.
 - A probable royalty rate reduction following the lease issuance from 8% to 5%. This conclusion was due to:
 - Mining at these depths continues to be experimental and is conducted at significant risk to the operator.
 - The financial effects of the high methane gas levels and the first time mining at these depths represent significant financial cost and ongoing risk.
- The like sale of the Summit Creek Tract in June 2004 was for \$0.16 / recoverable ton or an inflated value of \$0.188 / recoverable ton in April 2006.

The coal sale panel unanimously approved a motion to accept the bid of \$0.189 / recoverable ton for the Kenilworth LBA Tract, UTU-81893.

Recommendation

The coal sale panel recommends accepting the Andalex Resources, Inc. bid for the Kenilworth LBA Tract because it slightly exceeds the final adjusted coal sale panel Estimate of fair market value (FMV). Ron Daniels, representing the State of Utah, concurs with this recommendation.

Kent Hoffman

Deputy State Director, Lands and Minerals

I CONCUR:

/s/ Henri R. Blisson
State Director, Utah

I DO NOT CONCUR:

State Director, Utah

Cc: Ron Daniels, Energy Policy Coordinator
Kenilworth post sale doc.doc JM-SA 6-13-06

Minutes of lease by Application
Coal Sale
Utah State Office

The Kenilworth Tract

June 8, 2006

A coal lease sale was held at 1:00 p.m., June 8, 2006, pursuant to a notice posted April 12, 2006, and was conducted under the authority of Section 2(a)(1) of the Mineral Leasing Act of 1920, as amended.

The sale included one tract, the Kenilworth Tract, which conformed to the Lease By Application sale criteria set forth in 43 CFR 3425.1-5, and was found to be environmentally suitable for leasing, potentially economic for coal production, and consistent with local or regional, social and economic needs. The tract contains 1,760.00 acres located approximately eight miles northeast of Helper, Utah in Carbon County.

The sale was held by William Buge of the Solid Minerals Adjudication Group. A list of attendees is attached.

The coal resources were offered for lease by sealed bid. One sealed bid was received on the tract. A summary is shown below:

UTU-81893

Acres: 1,760.00

Coal Quality:

Btu/lb.:	13,060		
Percent Moisture:	2.92		
Percent Ash:	7.61		
Percent Volatile Matter:	41.82		
Percent Fixed Carbon:	47.83		
Percent Sulfur:	0.41		
Minimum Acceptable Bid:		Per Acre	\$ 100.00
		Total	\$176,000.00

High Bidder: Andalex Resources, Inc.

Total Bid:	\$2,816,000
Bid per Acre:	\$ 1,600
Total Submitted With Bid:	\$ 563,200
Per Ton Bid:	\$.189

The coal sale was declared closed at 1: 02 p.m.