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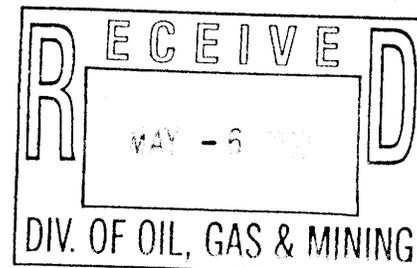
SALT LAKE CITY, UTAH

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May 5, 1999

Via Facsimile & U.S. MailThomas A. Mitchell, Esq.
Assistant Attorney General
160 East 300 South, 4th Floor
Salt Lake City, Utah 841**RE: *Division Order dated February 25, 1999, Horizon Mine,
ACT/007/020***

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Dear Tom:

On behalf of Horizon Mining, LLC ("Horizon"), we respectfully request that settlement negotiations reconvene regarding the February 25, 1999 Division Order ("Division Order") and NOV N99-26-1-1 ("NOV"). The Settlement Agreement forwarded to you on May 3, 1999, has been jeopardized by the Division of Oil, Gas & Mining's ("DOGM's") Technical Analysis and Findings for Midterm Review ("Findings"), dated April 23, 1999, and received on May 4, 1999, copy enclosed. These Findings are contrary to the agreement which Horizon reached with the Division on Thursday, April 29, 1999, and in contravention of the interlocutory order issued by the Board of Oil, Gas & Mining on April 15, 1999 ("Board Order"). The Findings seek to increase Horizon's reclamation obligation from \$209,000 to \$1,081,000. The majority of this 417% increase in liability is directly related to "disposal costs for the maximum amount of coal mine waste and high ash coal that will be stored on site." Findings at pages 12-13. Earthwork, haulage costs and dump fees associated with removal of the "high ash/waste material" are estimated at \$564,900. Findings Bond Calculation, page 3, enclosed.

Horizon has challenged the Division's characterization of high ash coal as coal mine waste. This issue is currently pending before the Board as Docket No. 99-001, scheduled for hearing on May 26, 1999. The Board's Order specifically enjoins the Division from enforcing the Division Order "to the extent DOGM interprets the high ash pile as a pile of the kind of 'coal mine waste' . . ." Board Order, Paragraph 30, B.C. During settlement negotiations, Horizon clearly stated that it would not agree to bond for off-site disposal of "high ash coal" which is being sold as coal product. This understanding is reflected at page 3, paragraph 6, of the draft Settlement Agreement, which provides: "Except as agreed to herein, all other provisions of the Division Order are withdrawn, including but not limited to any bond increase associated with the removal of the coal storage pile."

Patrick A. Mitchell, Esq.
May 4, 1999
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The Findings are based on the Division's incorrect assumptions regarding disposal of waste rock under Horizon's Mining and Reclamation Plan ("MRP"). These misunderstandings will be clarified in Horizon's MRP modification to be submitted pursuant to the Settlement Agreement by Friday, May 28, 1999. In this regard, Horizon has agreed to define the footprint of the coal storage and waste rock storage areas, estimate the volume of waste rock for temporary storage and amend Chapter 3 of the MRP to clarify the definitions of "coal," "rocky coal," "high ash coal," "waste rock" and "coal waste materials." Draft Settlement Agreement, paragraph 5. Until the nature of coal waste materials are determined and the volumes are defined, the Division's decision to increase the reclamation bond is unfounded and precipitous.

In sum, the Division's Findings and proposed bond increase are based on the contested assumption that high ash coal is coal mine waste. This issue is presently before the Board and if not settled will proceed to hearing. Horizon would appreciate an opportunity to reopen settlement discussions on this issue. However, if the parties cannot agree on this point, Horizon will take this matter to the Board on May 26, 1999.

We would appreciate an opportunity to meet with you and the Division to explore settlement. Representatives from Horizon and Earthfax Engineering, Inc., are available to meet on Wednesday, May 12, 1999, prior to noon or after 2:00 p.m.

We appreciate your assistance in this matter.

Very truly yours,



Denise A. Dragoo

DAD:jmc:79162

Enclosure

cc: Lowell Braxton
Mary Ann Wright
Daron Haddock
Daniel Moquin, Esq.
Dave D. Lauriski
Patrick O'Hara, Esq.
Larry Jones
Mark Wayment
Earthfax Engineering, Inc.