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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

*Incoming
C/007/020*

In Reply Refer To:
3485
UTU-74804
(UT-924)

JUN 6 2002

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JUN 10 2002

DIVISION OF
OIL, GAS AND MINING

CERTIFIED MAIL—Return Receipt Requested

DECISION

Lodestar Energy, Inc. : Coal Lease
HC35 Box 370 : UTU-74804
Helper, Utah 84526 :

Category 1 Royalty Rate Reduction
For a Portion of Coal Lease UTU-74804 Approved

On November 5, 1999, Lodestar Energy, Inc. (LEI) filed for a royalty rate reduction (RRR) on coal mined from Federal lease UTU-74804, which is the Horizon Mine. LEI requested a reduction from the normal underground rate of 8 percent to 5 percent.

The Bureau of Land Management (BLM) has examined the LEI application for a RRR on Federal coal lease UTU-74804 and determined the Horizon Mine presently has adverse geologic and mining conditions which threaten the continued operation of the mine. Since LEI is only in the development phase of mining the lease, BLM is limiting the RRR to a smaller area, in lieu of approving a RRR for the entire Federal lease. Private coal borders the Federal lease. The difference between the private coal royalty and the Federal royalty is approximately \$0.70 per ton. LEI could mine the private coal and pull out of the area, thus bypassing an estimated 6.5 million tons of Federal coal, because this is the only practical access to the reserve. In addition to the private coal issue, the previous company that operated the mine experienced negative profit margins.

BLM hereby approves a Category 1 RRR, effective December 1, 1999, the start of the first royalty reporting period after the date an application for a RRR was filed (November 5, 1999). The term of the RRR will be production of up to 900,000 tons of coal from the first 3 extraction panels in Federal lease UTU-74804, or a period of five years from the effective date, whichever occurs first.

Excess royalties paid on production between the filing of the RRR application and the approval date shall be recouped as a credit from prospective production royalty payments from lease UTU-74804. In no case shall a lessee be entitled to or ever receive a cash refund once a RRR has been approved. A lessee may recoup past royalty overpayments only from succeeding period royalty obligations for the same lease account for which a RRR has been granted. Reporting of royalty recoupments shall be made in accordance with the Minerals Management Service's (MMS) payer handbook.

The lease is in good standing with the MMS. The Utah Division of Oil, Gas and Mining as well as the Washington Office of the BLM have sent letters of concurrence to the RRR.

Lessees receiving a reduced royalty rate under this category must submit, on or before the anniversary date (starting December 1, 2002) to the Utah State Director, a certified statement that the conditions that justified the granting of the reduction continue to exist. Failure to submit this annual certification shall result in the immediate termination of the royalty rate reduction, at which time, the production royalty rate shall automatically revert to the production rate specified in the lease.

In addition to the annual certification, a financial statement of the previous year's mine operations must be submitted. The statement must include the following:

1. **Direct labor costs, Indirect labor costs (supervisory or salary),**
2. **Capital costs,**
3. **Materials and supplies,**
4. **Royalties,**
5. **Black lung and reclamation taxes,**
6. **Property taxes,**
7. **Cash costs,**
8. **Depreciation, depletion and amortization,**
9. **Total production cost,**
10. **Revenues and sales**
including the price and quantity of the coal for
all contracts, by customer,
11. **Productivity of the Continuous Miner units, and**
12. **Rate of mine production (by lease).**

Royalty rate reductions approved under this category are transferable with the lease, provided all lease payments are current and the lease accounts are in good standing.

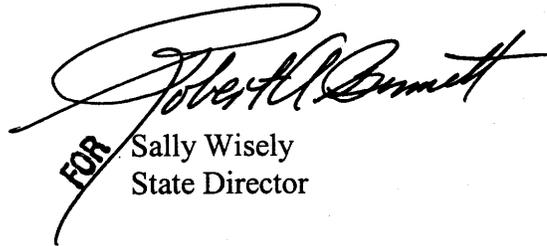
This decision may be appealed to the Interior Board of Land Appeals, Office of the Secretary, in accordance with the regulations contained in 43 CFR, Part 4, and the enclosed Form 1842-1. If an appeal is taken, your notice of appeal must be filed in this office (at the above shown address) within 30 days of receipt of this decision. The appellant has the burden of showing that the decision appealed from is in error.

If you wish to file a petition (pursuant to regulation 43 CFR 4.21)(58 FR 4939, January 19, 1993)(request) for a stay (suspension) of the effectiveness of this decision during the time that your appeal is being reviewed by the Board, the petition for a stay must accompany your notice of appeal. A petition for a stay is required to show sufficient justification based on the standards listed below. Copies of the notice of appeal and petition for stay **must** also be submitted to each party named in this decision and to the Interior Board of Land Appeals and to the appropriate Office of the Solicitor (see 43 CFR 4.413) at the same time the original documents are filed in this office. If you request a stay, you have the burden of proof to demonstrate that a stay should be granted.

Standards for Obtaining a Stay

Except as otherwise provided by law or other pertinent regulation, a petition for stay of a decision pending appeal shall show sufficient justification based on the following standards:

- (1) The relative harm to the parties if the stay is granted or denied,
- (2) The likelihood of the appellant's success on the merits,
- (3) The likelihood of immediate and irreparable harm if the stay is not granted, and
- (4) Whether the public interest favors granting the stay.


FOR Sally Wisely
State Director

Enclosures

1. Form 1842-1 (1 p)
2. Mine Map (1 p)
3. Washington Letter of Concurrence (1 p)
4. State of Utah Letter of Concurrence (1 p)

cc: Lodestar Energy, Inc., Attn: R. Eberley Davis, 333 West Vine Street, #1700,
Lexington, KY 40507-1628 (w/encl.)
MMS, Solid Minerals Staff, MS3153, Box 25165, Denver, CO 80225 (w/encl.)
Mr. Lowell Braxton, Director, UDOGM, Box 145801, SLC, UT 84114 (w/encl.)
Price Coal Office (Attn: Steve Falk)(w/encl.)

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Bureau of
Land Management

UNITED STATES DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT
WASHINGTON, DC 20240

UTAH STATE OFFICE
STATE DIRECTOR'S OFFICE

OFFICE	INITIAL	DATE
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In Reply Refer To:
3485
UTU-074804

NOV 05 2001

MEMORANDUM

To: State Director, Utah

From: Assistant Director, Minerals, Realty, and Resource Protection

Subject: Concurrence with the Royalty Rate Reduction for Federal Coal Lease UTU-074804, Lodestar Energy, Inc., Horizon Mine

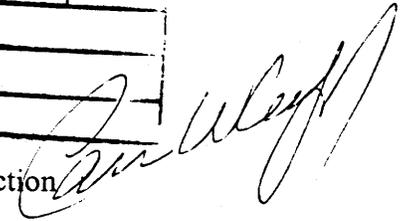
We have reviewed the Bureau of Land Management (BLM) Utah State Office's analysis and recommendation to approve a Category 1 royalty rate reduction for Federal coal lease UTU-074804, which is currently controlled by Lodestar Energy, Inc (LEI), Horizon Mine. We agree that the statutory requirements of greatest ultimate recovery, conservation of the resource, and that the lease cannot be successfully operated under the terms of the lease have all been met.

We agree that there are unique and adverse geologic conditions which adversely affect the continued operation of the Horizon Mine. We concur with your recommendation to grant a Category 1 royalty rate reduction from the lease royalty rate of 8.0 percent to 5.0 percent. The reduction in royalty rate would be for the production of not more than 900,000 tons from the Horizon Mine. It is our understanding that the reduced royalty rate will apply to all coal that is mined from the identified lease. The effective date of the royalty rate reduction will be December 1, 1999. The term of the royalty rate reduction will be production of up to 900,000 tons, or a period of five years from the effective date, whichever occurs first.

Please ensure that the application is in compliance with all applicable guidance including that the lease account is in good standing with the Minerals Management Service.

Please be sure the Utah Governor's Office is notified of the application and the proposed decision prior to any written or oral commitment to LEI. The Governor's concurrence needs to be obtained prior to approval.

If you have any questions, please contact William Radden-Lesage, Mining Engineer, Solid Minerals Group, (WO-320), 202- 452-0360.





State of Utah
 DEPARTMENT OF NATURAL RESOURCES
 DIVISION OF OIL, GAS AND MINING

Michael O. Leavitt
 Governor
 Kathleen Clarke
 Executive Director
 Lowell P. Braxton
 Division Director

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June 22, 2001

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JUN 26 2001

Bureau of
 Land Management

Sally Wisely, State Director
 U.S. Bureau of Land Management, U.S.D.I.
 Utah State Office
 P.O. Box 45155
 Salt Lake City, Utah 84145-0155

Re: Royalty Rate Reduction at the Horizon Coal Mine, Carbon County, Utah

Dear Ms. Wisely:

This letter is to memorialize our concurrence with the summary set forth in your letter of June 11, 2001 relative to the royalty rate reduction application for this coal mine. The State of Utah agrees that the coal which is the subject of this royalty rate reduction request probably would not be mined if the rate reduction from 8 percent to 5 percent is not granted. Likewise, limiting the royalty rate reduction to the first three panels and then evaluating production costs on an annual basis is appropriate in this case.

We hope that the projected \$720,000 increase in revenues to the federal and state government will be realized as a result of this action by B.L.M. Please let me know if you have any additional information needs on this topic.

Sincerely,

Lowell P. Braxton
 Director

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 O:Horizonrrltr

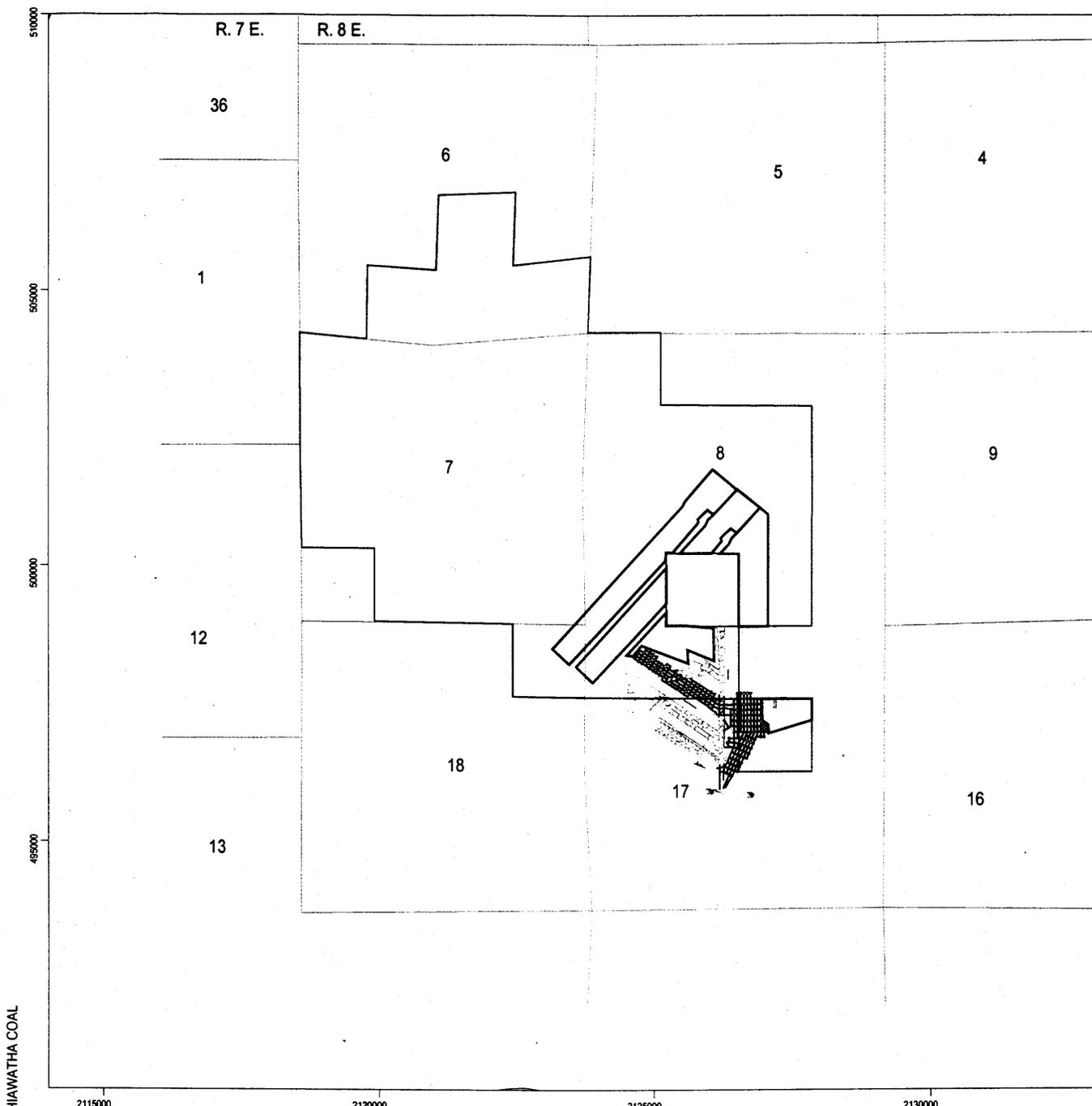
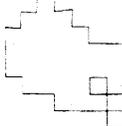


Figure 5 : Federal Coal Lease U-74804 with Proposed Royalty Rate Reduction Area

Horizon Coal Co. LBA - HIAWATHA COAL

2,000'±3



-  Federal Lease
-  Current Mine Workings
-  Royalty Rate Reduction Area
-  Old intercepted workings