

STATE OF UTAH
OFFICE OF THE ATTORNEY GENERAL

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JAN GRAHAM
ATTORNEY GENERAL

CAROL CLAWSON
Solicitor General

REED RICHARDS
Chief Deputy Attorney General

PALMER DEPAULIS
Chief of Staff

August 4, 1994

James T. Jensen, Esq.
Savage Industries, Inc.
5250 South 300 West, Suite 200
Salt Lake City, Utah 84107

Re: Your 7/14/94 Agreement

Dear Jim:

I attempted to speak with you on Tuesday, August 2, 1994, when I received the facsimile transmission of the above referenced draft Agreement. I also tried to speak with you yesterday. To facilitate communication on this matter I will share my thoughts and concerns in this letter.

As you may recall, we recently had a conversation with Denise Drago of Fabian and Clendenin and counsel from the Governor's office concerning the need for surety if Savage is successful in acquiring a permit to operate the CV Spur. Denise Drago proposed, and I concurred in, the concept of Mountain Coal acting as a third party guarantor through the use of Mountain Coal's existing surety if Mountain Coal's existing surety was willing to assume that obligation. The simplest solution to your concerns, I believe, does not require an agreement between all four parties. In fact I think all that is required from the Division of Oil, Gas and Mining to meet your purposes is a letter such as this one stating that so long as a complete application for permit transfer is submitted to the Division, the permit can be transferred. Regarding the requirement of a complete application, a surety rider issued by the Surety agreeing to replace Mountain Coal with Savage Industries is sufficient.

It is not necessary or appropriate for the Division to agree to Mountain Coal's lease of the CV Spur, nor may the Division agree that it will issue Savage the permits necessary to operate

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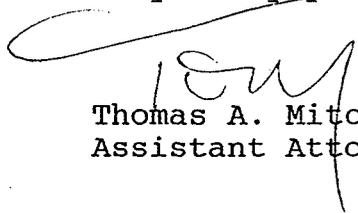
the CV Spur in advance of the actual issuance of the permit, assuming all the regulatory requirements are met. In addition, paragraph four which makes all reclamation and bonding requirements the sole and unconditional obligation of Mountain Coal is also in direct conflict with Savage obtaining the permit to become the operator of the CV Spur. While it is understood that Mountain Coal will be a secondary guarantor of Savage's obligations under a new permit, use of a surety rider to the existing surety does not need to be the subject of an agreement with the Division.

Therefore, paragraph five of your draft Agreement is effectively resolved by the issuance of a surety rider acknowledging that Savage is the new permittee. Finally, paragraph six is not an appropriate clause for an agreement to which the Division is a party. The agreement between Savage and Mountain Coal concerning the obligations of Mountain Coal to provide surety on Savage's behalf is one in which the Division can play no part.

In short, the only agreement which the Division may sign is a Reclamation Agreement by which Savage becomes the permittee for the CV Spur. The Reclamation Agreement and the transfer come about upon a complete and accurate application having been provided to the Division. Part of the complete and accurate application includes the Surety Bond. The Surety, as agreed with Denise and the Governor's representative, may consist of a surety rider to the existing surety which recognizes Savage as the operator and which continues the bond in effect with Savage as the permittee. This, hopefully, will simplify matters greatly for Savage, Mountain Coal, and the Surety.

Please call if you have any further questions.

Very truly yours,



Thomas A. Mitchell
Assistant Attorney General

lsj
cc: Jim Carter
Denise A. Dragoo

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