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State of Utah

School and Institutional
TRUST LANDS ADMINISTRATION

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Michael O. Leavitt
Governor

Stephen G. Boyden
Director

Permit for file OK

January 31, 2002

Ms. Sally Wisely
Utah State Director
Bureau of Land Management
Post Office Box 45155
Salt Lake City, Utah 84145-0155

J. Downing
1/15/02

Re: Request For Order Suspending Operations and Production - Oil and Gas Leases
UTU-78420 and UTU-78423.

Dear Ms. Wisely:

It has recently come to the attention of the School and Institutional Trust Lands Administration (the "Trust Lands Administration") that on June 24, 1999, the Bureau of Land Management ("BLM") issued federal oil and gas leases UTU-78420 and UTU-78423, which include lands in Township 16 South, Range 6 East, SLB&M in Emery County.

The leased lands overlie the Mill Fork coal tract, which the Trust Lands Administration acquired pursuant to the Utah Schools and Lands Exchange Act of 1998 (Public Law 105-335), in exchange for state-owned coal resources within the Grand Staircase - Escalante National Monument. Although the Trust Lands Administration acquired ownership of the coal estate in the Mill Fork tract, the United States retained the oil and gas estate in the tract.

At the time of the land exchange, the Department of the Interior, the Trust Lands Administration and the USDA - Forest Service entered into a Memorandum of Understanding to address management of the acquired coal lands, including issues associated with the split-estate ownership of coal tracts acquired by the state. This Memorandum of Understanding, as amended, states in part:

In order to minimize conflicts with coal mining operations, DOI and USDA-Forest Service agree to consult with SITLA **prior to issuance of federal leases** and permits that have the potential to conflict with coal mining operations on coal tracts conveyed to SITLA pursuant to [P.L. 105-335], **including but not limited to oil and gas leases** and power line and utility easements. (Emphasis added).

The MOU amendment containing this language was signed on March 23, 1999, by Sylvia Baca, the Acting Assistant Secretary for the Department of the Interior. BLM mineral staff in the Utah State Office and DOI solicitors in both Utah and Washington, D.C. were directly involved in the drafting of the MOU and the amendment, and in this agency's subsequent leasing of the coal tract to Pacificorp.

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The Trust Lands Administration first learned of the issuance of the two oil and gas leases when it received notification recently that the lessee has submitted a preliminary staking notice indicating its intent to drill several wells on the leases. We are surprised and concerned about this situation, since the leases were issued by BLM without consultation with the Trust Lands Administration, notwithstanding DOI's express consulting obligation in the MOU amendment. If one or both leases are developed at this time, it will prevent the recovery of coal from two longwall panels containing almost 4 million tons of coal. Depending upon the location of oil and gas wells, the impact of oil and gas development could be even greater.

The Mill Fork coal tract is the primary coal asset acquired by the Trust Lands Administration in the Public Law 105-335 exchange. Under the terms of the exchange agreement, bonus bids generated from leasing of the tract are split on a 50-50 basis between the United States and the State of Utah's general fund, while royalties are split on a 50-50 basis between the state school trust fund and the state at large¹. Once 22.4 million tons of coal have been mined from the tract, it will revert to federal ownership and control.

Development of the oil and gas leases prior to completion of coal mining would obviously impose significant economic loss on the coal lessee, which paid a \$25.2 million bonus bid (half of which was paid to BLM) in anticipation of being able to fully mine the tract. It would also delay the state school fund's receipt of full value from coal received in the Monument land exchange, harm the financial interests of the State of Utah (which splits coal royalties with the state school fund), and diminish the value of the United States' reversionary interest in the tract.

In light of these circumstances, the Trust Lands Administration respectfully requests that BLM suspend all operations and production under UTU-78420 and UTU-78423 in order to promote conservation of natural resources. Such a suspension is authorized by 30 U.S.C. § 209 and 43 C.F.R. § 3103.4-4, which permit BLM to suspend operations and production under oil and gas leases in order to promote the conservation of natural resources. BLM Manual 3160-10, which provides guidelines and procedures for implementing 43 C.F.R. § 3103.4-4, specifically states that delaying oil and gas drilling to allow the extraction of coal is a circumstance that warrants ordering a suspension. BLM Manual 3160-10.21.B.1. Suspension would also be consistent with BLM's current policy, as reflected in the attached BLM internal memorandum

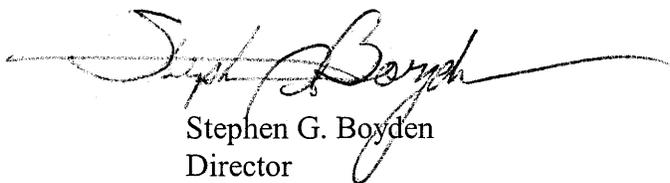
¹Royalties received by the state at large are distributed under state law to county governments and to the state's Permanent Community Impact Board, Rural Development Fund, and other state and local entities.

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dated March 23, 2001, to not permit oil and gas development within coal tracts expected to be developed within ten years (including lands acquired by the State in the P.L. 105-335 exchange).

The Trust Lands Administration appreciates your consideration of this matter. If you have any questions, please feel free to contact me at (801) 538-5101.

Sincerely,



Stephen G. Boyden
Director

Attachment

cc: Emery County Commission
✓ Lowell Braxton, DOGM
John S. Kirkham, Counsel for Pacificorp
Thomas B. Faddies



United States Department of the Interior

BUREAU OF LAND MANAGEMENT

Utah State Office
P.O. Box 45155
Salt Lake City, UT 84145-0155

In Reply Refer To
3100/3400
(UT-942)

MAR 23 2001

Memorandum

To: Branch Chief, Fluid Minerals
Branch Chief, Minerals Adjudication
Branch Chief, Solid Minerals

From: Deputy State Director, Natural Resources

Subject: Policy for Oil and Gas Leasing on Lands Presently Being
Developed for Underground Coal

As we discussed on March 7, 2001, the existing policy for oil and gas leasing on lands presently being developed for coal needs to be documented. We have determined that oil and gas development is incompatible with underground longwall mines, so oil and gas leases will not be offered over coal lands contained within the mine permit areas for existing coal mines or within coal lease tracts expected to be developed within the next ten years. In addition, as a matter of policy, oil and gas leases will not be offered at present on coal lands recently transferred to the State of Utah through the in holdings exchange. Coal lease conflicts will be identified through the following procedures:

1. Oil and gas parcels being considered for sale are sent by the Minerals Adjudication Branch to the responsible field office for their review for stipulations or surface conflicts. As part of this review, the Price Field Office will review the parcels to identify potential coal conflicts and forward their recommendations to the State Office.
2. The Branch of Solid Minerals will review the parcels being offered and the recommendations of the Price Field Office and identify which lands should be removed from the parcels to resolve conflicts with coal mining.
3. When a new oil and gas sale is initiated, the Branch of Solid Minerals will identify any coal lands that have been mined out so that no further conflict exists with coal mining for possible inclusion in the upcoming sale.

Charles M. Kozl