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**Coastal States
Energy Company**

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Houston, Texas 77046
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#13

7 Route

JWS
Subsidiary of
Coastal States
Gas Corporation
JBS
MAW

POW

Mr. Jack Feight, Director
Oil, Gas & Mining Div.
Dept. of Natural Resources
1588 West North Temple
Salt Lake City, Utah 84104

Dear Mr. Feight:

I am writing to review with you some organizational changes Coastal States Energy Company has made in its Utah operations. We feel that these changes will enable us to improve our service to customers and facilitate our future growth.

Southern Utah Fuel Company (SUFCO), which operates our coal mine just east of Salina, and which has been a division of Coastal States Energy Company, is now being incorporated as a separate subsidiary of Coastal States Energy Company. This change in status reflects the growth in size and importance of this company. When we purchased SUFCO in 1973, it was mining high quality coal at the rate of about 340,000 tons per year. Last year production exceeded 1.5 million tons. With development of new leases adjacent to the property, the SUFCO mine should reach a capacity of about 2.2 million tons per year by 1981.

Management of SUFCO will not be changed. Vernal Mortensen, who has so capably managed the SUFCO operation in the past, will continue as Vice President and General Manager and I will continue as President.

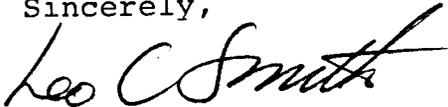
With the growing importance of coal as an energy source in the West, Coastal took another major step in 1978 and acquired 6,400 acres of coal leases near Scofield. We have incorporated a new wholly-owned subsidiary, Utah Fuel Company, to develop the property under a 50% - 50% joint venture arrangement with Getty Mineral Resources Company, a subsidiary of Getty Oil Company. Utah Fuel will be the operator of this new project.

Our plans call for opening two or more new mines, to be called the Skyline Mines, over a period of about 10 years. Ultimate mining capacity at these mines, is expected to be about five million tons per year, With this volume of new production, we expect to provide the finest service for our customers for many years to come.

Utah Fuel Company has the full strength of Coastal States Gas Corporation behind it. Its President is Harry L. Blomquist, Jr., who is also President of the parent company. I will be personally involved in development of the project as its Senior Vice President and General Manager. We will draw upon the best talents of our total organization to assure that we continue to be useful, productive citizens of Utah.

You will find Southern Utah Fuel Company and Utah Fuel Company to be highly responsible and reliable developers and operators. Please let me know if I can be of service to you.

Sincerely,



Leo C. Smith
Senior Vice President