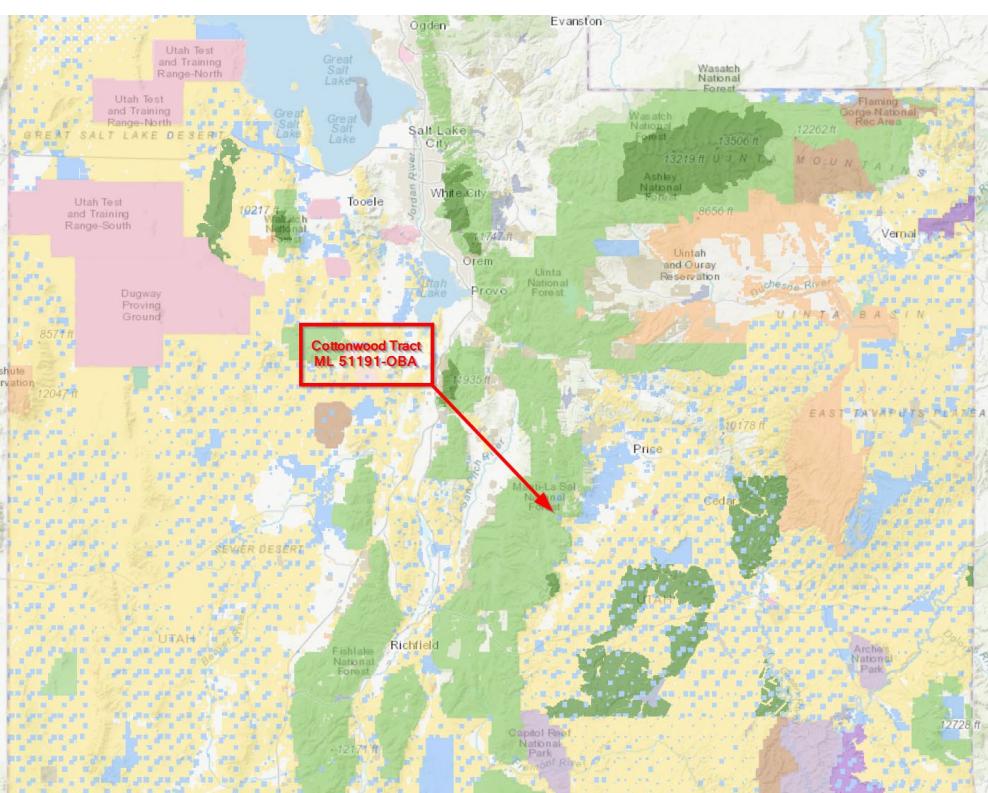


# ML 51191-OBA

# Royalty Rate Reduction

Energy & Minerals Group  
Stephanie Barber-Renteria  
Andy Bedingfield



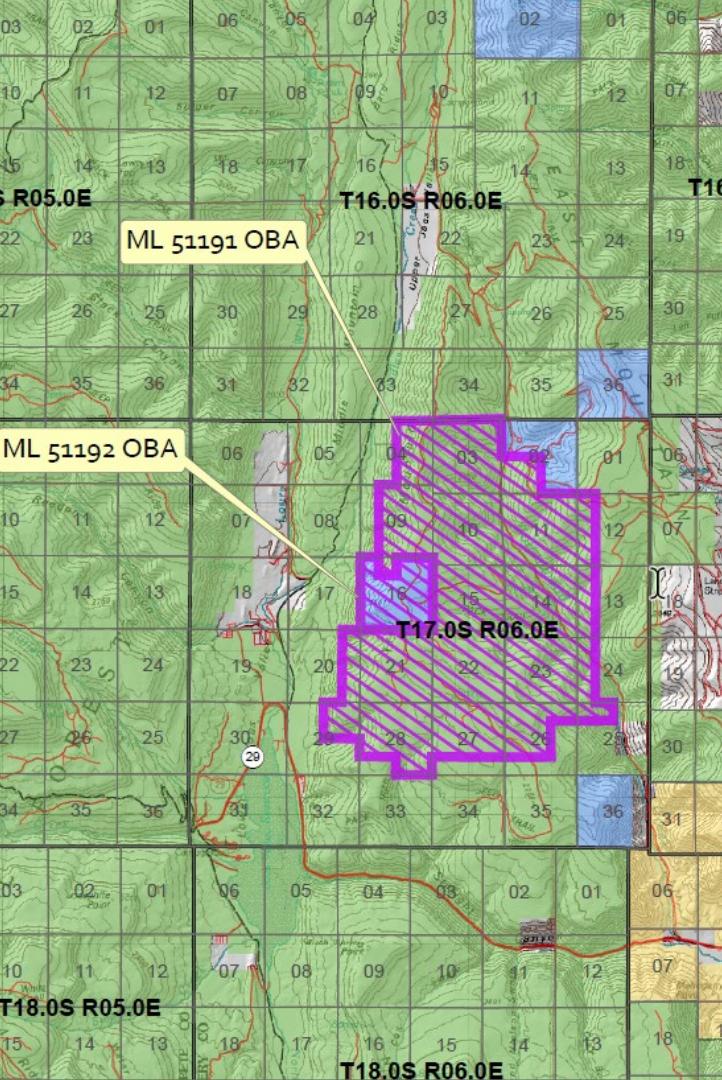


# Location

- Coal tract is located in the Wasatch Plateau
- Coal Value obtained in 1998 Escalante-Grand Staircase Exchange
- ML 51191-OBA leased in 2008
- Arch Coal assigned to PacifiCorp in 2011
- PacifiCorp assigned to Fossil Rock Fuels (Canyon Fuel Co./Wolverine Fuels) in 2015

# Cottonwood Tract

- LEDA – 50% of royalty goes to State of Utah and 50% goes to TLA Beneficiary
- The surface and minerals are owned by the Forest Service
- The coal tract will revert to federal ownership after \$26 MM is paid by the lessee (\$13 MM) paid to SITLA – Interest accrual puts this number around \$30 MM and \$15 MM respectively
- School Section (ML 51192-OBA) is a separate lease and does not revert ownership
- \$12 MM paid in minimum royalties to date – about \$1 MM per year
- Close proximity to Hunter Power Plant

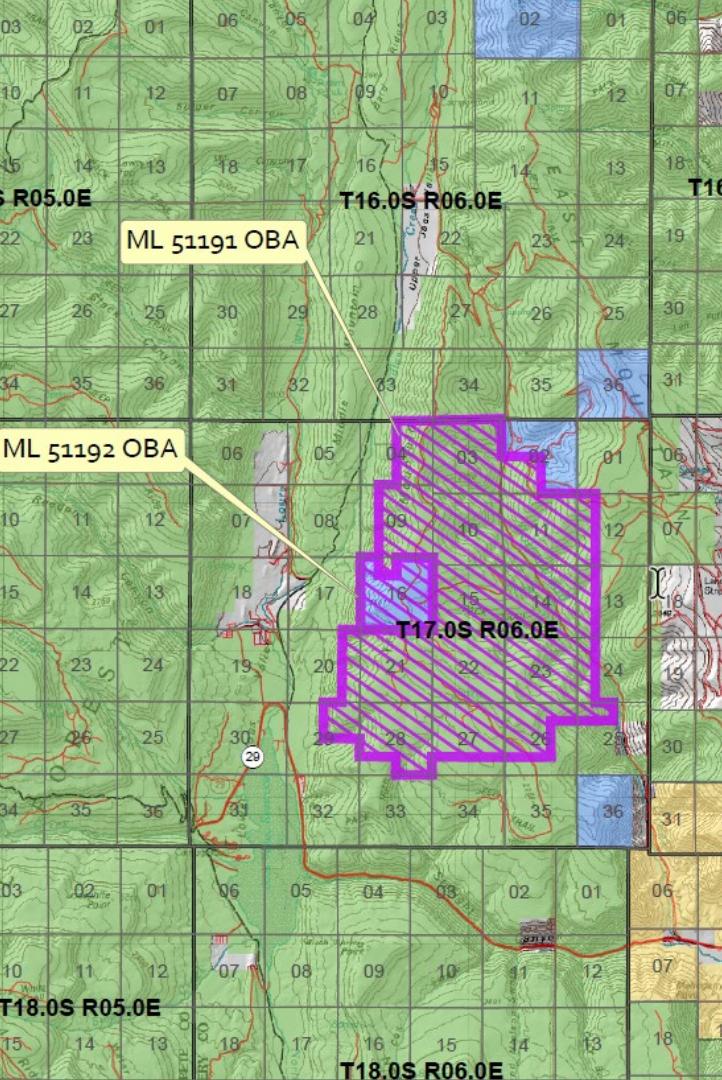


# Royalty Rate Reduction

- Reduce production royalty from 8% to 5% Gross
- Because SITLA's ownership of the coal is a \$13 MM – reducing the royalty does not affect the revenues paid to SITLA but it does affect the time frame that the royalties would be paid
- Royalty Rate Reduction recommended to incentivize large upfront capital investment by lessee and to maximize SITLA's revenue stream from an operating asset
- PacifiCorp holds a 4% overriding royalty
- A royalty reduction stretches the length of time that the \$12 MM paid in Minimum Royalties can be accrued
- 8% Royalty reverts in about 2030 – 5% Royalty reverts in about 2034 – but SITLA's total revenue is still the same
- BLM was consulted as per 1998 Land Exchange MOU – SITLA/DOI/DOA
- Lessee required to submit annual report to determine if RRR is still applicable for geologic considerations
- BLM consultation requested that Mine Plan, R2P2 and ROW Application paperwork be updated to reflect current plans – overriding royalty
- Once tract reverts to BLM, the BLM may also issue an RRR based on their policy guidelines

# Rationale for Request

- BLM has recently granted royalty reductions down to 2% at two of the Utah mines due to geologic and financial issues
- Due to supply constraints in the local fuel market, timing for Fossil Rock reopening is optimal
- Water Issues – Straight Canyon syncline and faulting
- Igneous dikes throughout the mine area
- Water inflows expected around 4,000 gpm in some areas
- Geologic issues cause ongoing equipment repairs and rebuilds and decreased mining productivity rates
- Due to deep cover, the mine plan requires larger barrier gaps between longwall panels which adds additional cost to mining and reduces productivity rates



# Economics



- 350 Direct Mine jobs
- 125 Trucking jobs
- 1,000+ Support jobs
- Approximately \$86MM+ in total positive economic impact in rural Utah
- Lessee to invest about \$150MM in 2024/25 to reopen the tract
- If mine never opens then TLA does not receive full payment of coal tract – School Section does not get mined