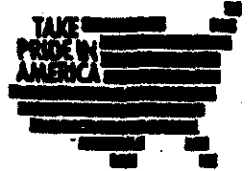




IN REPLY
REFER TO:

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
ROYALTY MANAGEMENT PROGRAM
P.O. BOX 25165
DENVER, COLORADO 80225



MMS-RVS
Mail Stop 653

APR 21 1989

Dear Payor:

New regulations affecting royalty management of Federal and Indian coal leases became effective March 1, 1989. These regulations were published in the Federal Register on Friday, January 13, 1989, at 54 F.R. 1492. The purpose of this letter is to clarify application of the new regulations to Indian leases regarding royalties on reimbursements for taxes and fees.

The new regulations specify at 30 CFR § 206.250(d) (54 F.R. 1523) that they are intended to ensure that the trust responsibilities of the United States with respect to the administration of Indian coal leases are properly discharged. Furthermore, the regulations provide at 30 CFR § 206.257(b)(5) (54 F.R. 1525) that the value of coal from Indian leases will not, for royalty calculation purposes, be reduced by the costs of Black Lung excise taxes, abandoned mine land fees, or severance taxes. These exclusions are authorized for purposes of valuing coal for royalty purposes only from Federal leases.

We wish to reemphasize to payors the regulatory requirements for valuing coal from Indian leases. Payors are hereby given notice that the Minerals Management Service (MMS) considers the coal product valuation regulations as applied to all Indian leases to prohibit the lessees from excluding the costs of Black Lung excise taxes, abandoned mine land fees, and severance taxes from the value of coal for royalty determination purposes. Failure to adhere to the coal valuation regulations as applicable to Indian lands may subject payors to enforcement action by MMS, including civil penalties as prescribed at 30 CFR § 241.20 (1988).

If you have any questions, please contact Donald T. Sant, Deputy Associate Director for Valuation and Audit, at (303) 231-3899.

Sincerely,

Jerry D. Hill
Associate Director for
Royalty Management