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It's the end of an era:

Amax ends seven-year quest for water rights

by Gary Sprung

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For the first time since the early 1970s, Amax, Inc. is neither exploring, developing, negotiating nor litigating to develop its molybdenum mineral claims on Mt. Emmons. It's the end of an era.

Amax has ended its seven-year quest to obtain local waters for mining purposes. The company filed a motion in April requesting a dismissal of its applications for conditional water rights. The request was granted on May 5.

Behind the request was the decision by U.S. Energy/Crested Corporation to not exercise an option to buy the Mt. Emmons mining claims. U.S. Energy is a Wyoming corporation which owned the Mt. Emmons properties until Amax purchased them in 1980. U.S. Energy received generous compensation in the sale: a \$15 million interest-free loan from Amax and royalties of 700,000 pounds of molybdenum per year. At today's prices, that amount of moly would be worth almost \$25 million.

In 1985, U.S. Energy decided to take its own shot at mining Mt. Emmons, so it negotiated an option to repurchase the claims from Amax and began looking for a capital investment partner. The option agreement eased Amax's royalty burden.

The 1985 agreement also gave some credibility to Amax's pursuit of water rights. Mining processes need water. Without rights to the water, the project could not be sold. But Colorado law prohibits speculative claiming of water with potential resale as the only purpose. The Town of Crested Butte contended that with the moly market severely depressed, Amax could not prove it had real intentions to diligently develop a mine, so it

As seven-year quest for water rights

could not prove it needed the water.

U.S. Energy found no buyers. In February this year, it decided to leave the project in Amax's hands.

Crested Butte Town Attorney Wes Light thinks the dismissal validates the heart of the Town's case.

"Apparently, when the deal fell through, they didn't feel they could successfully convince the court that they could meet the requirements of

proving due diligence," he commented.

The end of the option agreement also reopened the issue of royalties. So a new agreement will have the mining giant paying U.S. Energy just 50,000 pounds of molybdenum per year beginning in 1990. Between now and then, instead of royalties, U.S. Energy will be gaining credits on the \$15 million loan.

Still in Gunnison County

Amax remains involved in

Gunnison County. It still holds several land parcels acquired for the Mt. Emmons Project. Most are for sale. It also continues to operate the water treatment plant which prevents the old Keystone Mine from polluting Coal Creek, the source of Crested Butte's drinking water.

Paul Hemschoot, Jr., associate general counsel for Amax, said the company spends about a million dollars a year operating the water plant. He would not commit to continuing

this operation, but did say that Amax is committed to complying with the pollution discharge permit.

Light recollected that the discharge permit mandates continuing operation of the treatment plant.

Moly down, not out

Hemschoot also noted that Amax remains committed to maintaining the validity of its mining claims at least through

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1989. That means the company will expend at least \$100 per claim per year, according to the procedures set out in the 1872 federal mining law.

Hemschoot said the company still looks at Mt. Emmons as a valuable mineral property, "the next molybdenum mine to be developed."

Light agreed that the presence of a large molybdenum ore body in Mt. Emmons "may at some time entice someone to try to develop it."

Meanwhile, Amax's molybdenum operations continue to lose money: \$33 million last year; \$89 million in 1985. Amax is now shutting down its Leadville Climax mine for an indefinite period. The huge mine in operation since 1917 once

employed thousands. After June 1 it will employ just 50 for security and maintenance. At Henderson, Amax's second major moly mine developed near Idaho Springs in the late 1960s, the work force is decreasing to 620. Such cost cutting, plus a slightly higher market price for molybdenum, accounts for the reduction of losses in 1986.

Amax as a whole did turn a profit in 1986 for the first time in five years. It earned \$14 million on assets of \$4.4 billion. That compares with a 1985 loss of \$621 million on assets of \$3.4 billion. The \$1 billion increase in assets came mostly from an acquisition of the aluminum company Alumax. Amax's aluminum, coal and gold mining operations, plus sales of some real estate, created the 1986 profit.