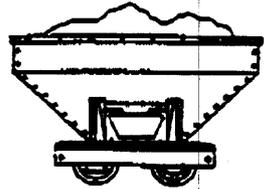


PAM

UTAH STATE OFFICE DIVISION OF LANDS & MINERALS

*Incoming
c/007/005
Copy Mary Ann,
Daryl, Pam
Susan
- FAX PFO*

TELEFAX NO. (801) 539-4200



TELEFAX MESSAGE

TO: *MAN 3/31/03*

FROM:

DATE:

COMMENTS:

FAX NO:

PAGES TO FOLLOW: *2*



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:
3484
UTU- 044076
(UT-923)

CERTIFIED MAIL--Return Receipt Requested
Certification No.

Mr. Dan Meadors
Canyon Fuel Company, LLC
HC 35 Box 380
Helper, Utah 84526

Re: Water Well JC-3 on Federal Coal Lease UTU-044076

NOTICE OF NON-COMPLIANCE

On Thursday March 20, 2003, BLM became aware that a water well was being drilled on Federal Coal Lease UTU-044076. BLM immediately contacted the Canyon Fuel Company LLC, Skyline Mine to request information to better understand the situation. We were informed that the mine believed that the well had previously been approved by our Price Field Office on September 25, 2001. After reviewing the approval document signed by the Price Field Office, we concluded that the September 25, 2001, approval was limited to the initial plan to drill up to 3 wells at the site before October 26, 2001, as provided in the approved plan. After further review of the initial information supplied by the mine it also became clear that the drilling plan was significantly different from the 2001 plan.

To better understand these differences BLM requested a meeting with personnel from the mine to clarify our questions. The meetings were held on March 27 and March 28, 2003, and included personnel from Skyline, Pacificorp, BLM, and the State of Utah Division of Oil, Gas, and Mining. Based upon these meetings, BLM determined that you did not have approval to commence drilling of the J-C 3 mine de-watering well. However, we were able to resolve most of the technical questions we had about the proposed well.

Because BLM had not approved any drilling plan, you are in non-compliance with the terms of your lease and the regulations at 43 CFR 3482.1(b) that require that the lessee must obtain approval of an R2P2 " before conducting any federal coal development or mining operations on Federal leases. Because the JC-3 well will penetrate the potentially minable Flat Canyon Coal seam and the hole will pass through mine workings in the Lower O'Connor "B" Coal seam to dewater the mine, BLM considers this well to be related to your mining operation and requires that the proposed well be included in the Resource Recovery and Protection Plan (R2P2) for the Skyline Mine. As a result of the technical discussions in the meetings held on March 27 and March 28, BLM has made a determination that this JC-3 well does not represent an immediate threat of damage to the coal or other natural resources or impact public safety, and have concluded that a cessation of operations is not necessary at this time in accordance with 43 CFR 3486.3.

Requirements to Correct the Mining Plan Non-compliance: In order to resolve the mining plan non-compliance Skyline mine must do the following:

1. By April 3, 2003 CFC, Skyline Mine must submit the following to BLM.
 - a. Submit a request for a minor modification of the R2P2 in accordance with 43 CFR 3482.29(c).
 - b. This plan must provide a rationale to support the need for the dewatering well.
 - c. The plan must address how the dewatering well will affect coal recovery
 - d. A discussion must be provided to show how the coal in the Flat Canyon Coal bed will be protected
 - e. A copy of the well proposal including casing design, other downhole considerations, drilling/casing schedules, MSHA approval
2. Until this modification request is submitted and approved, drilling of JC-3 may proceed up to placement of the casing below the existing mine workings. The well cannot be cased below the mine workings until the questions of grouting this casing and protection of the Flat Canyon coal seam are resolved.

Compliance Failure: Failure to comply with this Notice of Non-Compliance in the specified time frame will result in a cessation of operations order being placed on the drilling operation.

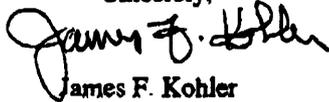
Appeal Rights: Following the compliance period, you then have 30 calendar days to appeal to the Board of Land Appeals, Office of the Secretary, in accordance with the regulation at 43 CFR Part 4 and the enclosed Form 1842-1. If an appeal is taken, your notice of appeal must be filed in this office within 30 calendar days following at the end of the compliance period. The appellant has the burden of showing that the decision appealed from is in error.

If you wish to file a petition pursuant to regulation 43 CFR 4.21 (58 FR 4939, January 19, 1993) for a stay of the effectiveness of this decision during the time that you appeal is being reviewed by the Board, the petition for a stay must accompany your notice of appeal. A petition for a stay is required to show sufficient justification based on the standards listed below. Copies of the notice of appeal and the petition for a stay must also be submitted to the Office of the Solicitor (see 43 CFR 4.413) at the same time the original documents are filed with this office. If you request a stay, you have the burden of proof to demonstrate that a stay should be granted.

Standards for Obtaining a Stay: Except as otherwise provided by law or other pertinent regulation, a petition for a stay of a decision pending appeal shall show sufficient justification based on the following standards;

- (1) The relative harm to the parties if a stay is granted or denied;
- (2) The likelihood of the appellant's success on the merits;
- (3) The likelihood of the immediate and irreparable harm if the stay is not granted, and;
- (4) Whether the public interest favors granting the stay.

Sincerely,



James F. Kohler
Chief, Solid Minerals Branch

cc: Mary Ann Wright, Utah Division of Oil, Gas and Mining, 1594 west North Temple, P.O. Box 145801
Salt Lake City, Utah 84114-5801

bcc: PFO
Mine Files:UTU-044076
Solid Chron
Mine Plan
SPerkes

SPerkes:sa:03/28/03
Skyline JC-non