


Canyon Fuel Company, LLC
Skyline Mines

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James F. Kohler
 Branch Chief, Solid Minerals
 Bureau of Land Management
 State of Utah Office
 324 South State St.
 Salt Lake City, Utah 84145-0155

May 14, 2003

Ref: Status of Lease by Application # UTU-7714 -- Flat Canyon Coal Tract

Dear Mr. Kohler:

On March 18, 1998, the Bureau of Land Management (BLM) acknowledged the filing by Canyon Fuel Company, LLC (CFC) for the Lease by Application (LBA) for the Flat Canyon Coal Tract, amended the application, and assigned the Serial No. UTU-77114. BLM has informed CFC the Tract Delineation was completed by August 20, 1999.

The process leading to leasing the tract proceeded to the point of publication in the Federal Register on May 23, 2002, of the "Notice of Availability of Record of Decision." However, shortly after that time, CFC determined that geologic conditions evident in the Flat Canyon tract necessitated a delay in the interest by CFC. This determination resulted in verbal notification by CFC to BLM and the Utah Division of Oil Gas and Mining (DOG M) of CFC's decision to not pursue leasing of the Flat Canyon Coal Tract at that time. Subsequently, BLM notified CFC the lease offering for the Flat Canyon Coal Tract would be delayed indefinitely.

There were, and continue to be, several factors leading to the decision by CFC to not continue to pursue leasing. The major factor is the volume and extent of water encountered in adjacent active Skyline Mine workings and the projection by hydrology experts that the inflow of water in the Flat Canyon Coal Tract may be even more significant than that encountered to date. This water challenge continues to be evaluated to better understand the source and probable inflows in the existing and proposed Flat Canyon mine workings. Another factor continues to be the weak coal market, which makes it uneconomic to commit the funds necessary to acquire and develop such a coal tract.

Although CFC is not prepared to proceed with leasing of the Flat Canyon Coal Tract at this time, CFC reserves the right to resume active efforts to lease this coal tract at any time in the future if the economics of the tract area warrant such action.

Sincerely,



Daniel R. Meadors
 Mine Manager

Cc: Mary Ann Wright, DOGM
 Forest Supervisor, Manti-La Sal National Forest, Price, UT
 George Tetreault, BLM Price Field Office

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