

**State of Utah****Department of
Natural Resources**

MICHAEL R. STYLER
Executive Director

**Division of
Oil, Gas & Mining**

JOHN R. BAZA
Division Director

JON M. HUNTSMAN, JR.
Governor

GARY R. HERBERT
Lieutenant Governor

August 23, 2006

Wess Sorensen, General Manager
Canyon Fuel Company, LLC.
HC 35 Box 380
Helper, Utah 84526

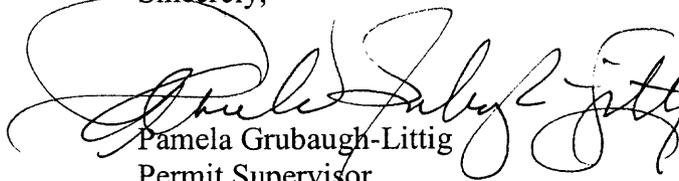
Subject: Approval of Minor Coal Exploration, Task No. 2592, Canyon Fuel
Company, LLC., Skyline Mine, C0070005

Dear Mr. Sorensen:

The above-referenced Letter of Intent is approved effective August 19, 2006. A stamped approved copy is enclosed for your records as well as a copy of our Technical Analysis.

If you have any questions, please feel free to call me at (801) 538-5268 or Stephen J. Demczak at (435) 613-1146 ex 202.

Sincerely,



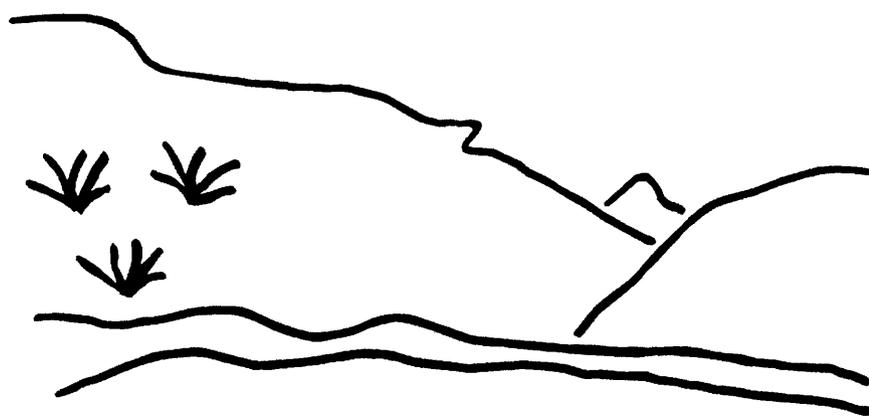
Pamela Grubaugh-Littig
Permit Supervisor

SJD/sd
Enclosure(2)

cc: Ranvir Singh, OSM w/o
Jim Kohler, BLM w/o
Alice Carlton, USFS w/o
Mark Page, Water Rights w/o
Dave Ariotti, DEQ w/o
Derris Jones, DWR w/o
Price Field Office

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State of Utah



Utah Oil Gas and Mining

Coal Regulatory Program

Skyline Mine
Minor Coal Exploration
C/007/005
Task ID #2592
Minor Exploration Analysis and Findings
August 9, 2006

TABLE OF CONTENTS

INTRODUCTION.....	1
SUMMARY OF OUTSTANDING DEFICIENCIES	3
SUMMARY OF PERMIT CONDITIONS.....	3
COAL EXPLORATION.....	5
SCOPE AND RESPONSIBILITIES	5
REQUIREMENTS FOR NOTICE OF INTENTION TO CONDUCT MINOR COAL EXPLORATION	5
Archeology	6
COMPLIANCE DUTIES.....	9
OPERATIONAL STANDARDS	9
Roads	9
Diversions of Overland flows and streams.....	9
Hydrologic Balance	9
Acid- or toxic forming materials	10
RECLAMATION STANDARDS	10
Approximate original contour.....	10
Boreholes	10
Facilities and Equipment	10
PUBLIC AVAILABILITY OF INFORMATION.....	11

TABLE OF CONTENTS

INTRODUCTION

EXPLORATION TECHNICAL ANALYSIS

INTRODUCTION

Canyon Fuel Company has submitted a letter of Intent to conduct Minor Exploration on Fee (private) ground. The applicant will drill one hole on Allred Family Trust surface property. This applicant will helicopter the drill equipment to the drill site. The project is scheduled for August 10, 2006 and will be reclaimed two weeks later. Canyon Fuel has received landowner consent for this project.

Page 2
C/007/005
Task ID #2592
August 9, 2006

INTRODUCTION

SUMMARY OF OUTSTANDING DEFICIENCIES

SUMMARY OF OUTSTANDING DEFICIENCIES

The Technical Analysis regarding the proposed permit changes is not complete at this time, pending submittal of additional information by the Permittee and further review by the Division, to address outstanding deficiencies in the proposal. A summary of those outstanding deficiencies is provided below. Additional comments, concerns, and deficiencies may also be found within the analysis and finding make in the Draft Technical Analysis which have not been presented in this summary. Upon finalization of this review, any outstanding deficiencies will be evaluated for compliance with the regulatory requirements. Such deficiencies may be conditioned to the requirements of the permit issued by the Division, result in denial of the proposed permit changes, or may result in other executive or enforcement actions as deemed necessary by the Division at that time to achieve compliance with the Utah Coal Regulatory Program.

Accordingly, the permittee must address those deficiencies as found within this Draft Technical Analysis and provide the following, prior to approval, in accordance with the requirements of:

SUMMARY OF PERMIT CONDITIONS

As determined in the analysis and findings of this Technical Analysis, approval of the plan is subject to the following Permit Conditions. The applicant is subject to compliance with the following Permit Conditions and has committed to comply with the requirements of these conditions as referenced in the approved Permit.

Accordingly, the permittee has committed to comply with the requirements of the following Permit Conditions, as specified, and in accordance with the requirements of:

Page 4
C/0/0
Task ID #
Date

SUMMARY OF OUTSTANDING DEFICIENCIES

COAL EXPLORATION

COAL EXPLORATION

Regulatory Reference: R645-200.

SCOPE AND RESPONSIBILITIES

Regulatory Reference: 30 CFR 772.1; 30 CFR 772.10; 30 CFR 772.11; R645-100-400; R645-200-100; R645-200-200; R645-201-100.

Analysis:

Canyon Fuel Company has submitted a Letter of Intent to conduct minor coal exploration. The permittee will remove less than 250 tons of coal. The applicant will drill only one hole on Fee Ground. The total distance is 0.003 acres.

Findings:

The permittee has met the minimum requirements of this section.

REQUIREMENTS FOR NOTICE OF INTENTION TO CONDUCT MINOR COAL EXPLORATION

Regulatory Reference: 30 CFR 772.10; 30 CFR 772.11; R645-100-412; R645-201-200.

Analysis:

The Division is reviewing the application and will determine if the application meets the minimum requirement of Minor Coal Exploration.

The applicant will drill one hole (E-06) and will remove less than 250 tons of coal and disturb only 0.003 acres.

The applicant has given the required name and address and the responsible representative for conducting minor exploration (see Page 2 of Notice of Intent).

The applicant has submitted a map giving the location of the drill hole (Map 1, 2). The drill hole will be on Allred Family Trust surface ground. Canyon Fuel did receive permission to conduct minor exploration on their ground (see Appendix C).

Canyon Fuel Company has given a narrative describing the location and method of conducting minor exploration. The method is to helicopter the drill rig and support equipment to

COAL EXPLORATION

the drill site. A pick-up truck will be used to transport men, supplies, and fuel to the site. A contractor-laying pipe will use three pick-up trucks. The company representative will also use one a pick up truck.

Total project time will be two weeks. The starting date will be August 10, 2006.

The Mine and Reclamation Plan (MRP) meets the requirements of R645-201-200.223, R645-201-200.224, or R645-201-200.225 because the Permittee adequately presents narrative describing the exploration area, timing of the project, and method used to protect biological or archeological resources from adverse impacts.

The proposed drill hole would be located within a fee coal lease belonging to Canyon Fuel Company and the surface belonging to a private owner. The legal description for this project including the drill hole, staging area, and road access is:

T12S, R6E, Sec 25, 26 (staging area), 34, 33, 36 (hole);
T13S, R6E, Sec 4, 9, 10,15, 14; [note all undesignated sections listed would be for the proposed road access or heli flight path]. The 7.5 Minute Quadrangle USGS map is the Scofield quadrangle.

The Permittee would transport wireline drill rigs by helicopter and drill one 3" diameter hole. The disturbed acreage for this drill hole would be approximately 0.003 acres. The elevation of the proposed project sites is approximately 8,500- 9500'. The proposed drill-hole staging site is the USFS Manti-LaSal District, Sec 26.

The plan shows that the project will start in mid-August and take approximately two weeks to complete.

Archeology

The Division will comply with the Utah Code Section 9-8-404 laws. The Permittee conducted a cultural survey (Billat 2006) for this proposed project. The results of the Class III survey showed that there were no cultural resources within or adjacent to the drill hole site. Scott Billat also reported that there is a low probability of discovering cultural resources in the project area.

The Division makes the determination that the E06 drill project would have "no effect" to cultural resources because there were no resources observed, there is little potential of discovering cultural resources within the project area, and the project would impact a very small area.

COAL EXPLORATION

Findings:

The permittee has met the minimum requirements of this section.

Page 8
C/007/005
Task ID #2592
August 9, 2006

COAL EXPLORATION

COMPLIANCE DUTIES

COMPLIANCE DUTIES

Regulatory Reference: 30 CFR 772.13; R645-202.

The applicant will have a copy of the Letter of Intent on hand.

OPERATIONAL STANDARDS

Regulatory Reference: 30 CFR 772.13; R645-202-100.

Analysis:

Roads

No road will be constructed. The applicant will use existing US Forest Service roads to the staging area and to the drill site. Canyon Fuel has received a road use permit to use these roads. The permit is #0410-03.

Diversions of Overland flows and streams

The drill site is not located in an area of stream flow. The site is located on a southwest-facing sagebrush slope.

Hydrologic Balance

The hydrologic balance will not be affected because all fluids will be contained and transported off site. The drill cutting will be placed in containers to prevent the possibility of acid and toxic material contaminating the ground and surface waters. These cutting will be transported to the Skyline waste rock site. If acid and toxic material is found in the cutting, they will be covered with 4 feet of material.

The drill pad is located in a stream channel.

All drilling equipment will have brattice beneath, with raised edges to prevent runoff and/or mixing with overland flows.

The applicant has received a temporary Water Change from the Division of Water Rights, State of Utah to transport water from the Skyline Mine to the drill pad.

No perennial or intermittent streams will be crossed to gain access to the drill rig.

COMPLIANCE DUTIES

All drilling liquids will be contained and transported away.

Acid- or toxic forming materials

These cutting will be transported to the Skyline waste rock site. If acid and toxic material is found in the cutting, they will be covered with 4 feet of material.

Findings:

The permittee has met the minimum requirements of this section.

RECLAMATION STANDARDS

Regulatory Reference: 30 CFR 772.13; R645-202-200.

Analysis:

Approximate original contour

The applicant will return the area to approximate original contour. The disturbance will be leveling the drill rig using shovels. The total disturbed area will be 0.003 acres.

Boreholes

Upon completion of the drill hole, the applicant will fill the hole with a cement/bentonite slurry mixture. The hole will be completely filled with this mixture. A brass tag will be placed on top of the hole giving operator's name, drill hole number, and legal description.

Facilities and Equipment

No facilities or equipment will be left after drilling is completed. The pad will be reclaimed.

Findings:

The permittee has met the minimum requirements of this section.

PUBLIC AVAILABILITY OF INFORMATION

PUBLIC AVAILABILITY OF INFORMATION

Regulatory Reference: 30 CFR 772.15; R645-203.

Analysis:

The applicant does not want to make any drilling information available to the public.

Findings:

The permittee has met the minimum requirements of this section.

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