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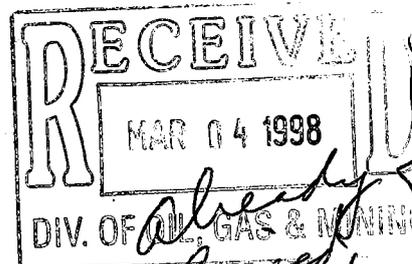
State of Utah

School and Institutional
TRUST LANDS ADMINISTRATION

Michael O. Leavitt
Governor
David T. Terry
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*Route copy to Dugout
Team*



*Mike X
Susan
Bob B
Jim S.*

March 3, 1998

*already
Copied to them
file only*

Ms. Mary Ann Wright
Division of Oil, Gas & Mining
1594 West North Temple, Suite 1210
P.O. Box 145801
Salt Lake City, UT 84114-5801

RE: Dugout Mine Permit
Carbon County, Utah

*PRO/007/039
#2*

Dear Ms. *Mary Ann* Wright:

Thank you for hosting a meeting on February 27, 1998, with various stakeholders to review the permit status of the Canyon Fuel Company L.L.C. ("Canyon Fuel"), Dugout Mine. It is very reassuring to me that the Division of Oil, Gas and Mining (DOG M) was willing to resolve outstanding issues relative to this permit in a direct and candid manner. I apologize for being unable to attend, however, Justin Quigley and John Blake from our office have reported to me that the meeting was productive and very informative.

As you know, a substantial portion of the Dugout Mine will be located upon lands administered by the School and Institutional Trust Lands Administration (the "Trust Lands Administration"), the balance of the project will be located upon fee lands; there are no federal lands currently involved in the permit area. Due to the importance of this project to the Trust Lands Administration, I have had numerous discussions with Canyon Fuel regarding the status of the Dugout Mine. For several years, the Trust Lands Administration has been encouraging Canyon Fuel to bring this property into production. I am pleased that production from these lands is about to be realized.

During recent discussions with Canyon Fuel, they indicated that, for a variety of reasons, it is important that development and production from the Dugout Mine occur during 1998. To meet this time frame, Canyon Fuel has stated that it must receive an approved mining permit from DOGM in March, 1998. This is a goal that the Trust Lands Administration also shares.

It is my understanding that at the February 27 meeting, the Bureau of Land Management ("BLM") raised a number of "new" concerns regarding the stream alteration permit and other issues relative to the development of the Dugout Mine. I understand that BLM's primary concern was that, although no federal lands are involved in the current Permit Application Plan ("PAP"), as an adjacent landowner, BLM had not been provided an opportunity to comment on

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either the stream alteration permit or the PAP. It is my belief that, contrary to this position, BLM has been provided with ample opportunity to comment on both the stream alteration permit and the PAP, as follows:

BLM has indicated that it did not receive a copy of the stream alteration application (SCA 97-91-07SA) until after the comment period had expired. However, BLM participates in the State of Utah Resources Development Coordinating Committee ("RDCC"). Through its participation, BLM is provided with bi-weekly agendas containing actions under consideration by the State of Utah. BLM is provided an opportunity to comment on any of these pending actions. The stream alteration application was on the RDCC's agenda for the meeting of August 26, 1997 (Item # 15). Consequently, BLM had the opportunity, through RDCC, to comment on the stream alteration application.

A public notice requesting comments regarding the PAP was published in the Sun Advocate on October 30, 1997, November 6, 13 and 20, 1997. This public notice provided BLM an opportunity to submit comments regarding the PAP to DOGM.

A copy of the PAP has been available at DOGM's offices and at the Carbon County Courthouse for BLM's review. The comment period for the PAP expired on December 20, 1997.

In response to BLM's concerns raised at the February 27, 1998 meeting, I understand that DOGM indicated its willingness to accept comments until Friday, March 6, 1998, as a courtesy to BLM. The Trust Lands Administration certainly does not object to providing BLM an opportunity to comment, to the contrary, we welcome their input, however, it is my understanding that BLM requested at least 2-3 weeks to review the PAP and submit comments. Given the extended opportunity BLM has already had to comment and since development of the Dugout Mine is under a very tight time constraint, we support your deadline of March 6, 1998.

The designation of the Grand Staircase-Escalante National Monument has effectively precluded the development of a substantial amount of coal resources managed by the Trust Lands Administration, and therefore, has increased the importance of prudently developing the remaining coal resources under management of the Trust Lands Administration. Consequently, failure to develop the Dugout Mine will have significant adverse economic impact upon the permanent school fund. The Trust Lands Administration has reviewed the PAP and fully supports Canyon Fuel in its request for approval. The Trust Lands Administration respectfully requests that DOGM strive to meet the time frame requirements of the Dugout Mine.

It is important to me that you understand that the Trust Lands Administration appreciates

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the effort DOGM has expended in the permitting of the Dugout Mine. In my estimation, your staff has done an excellent job of ensuring that the Dugout Mine complies with all appropriate regulatory requirements. Thank you for your continued effort to issue a complete mining permit within the month.

If you have any questions or if I can be of any assistance, please feel free to call me at (801) 538-5150.

Sincerely,

A handwritten signature in black ink, appearing to read 'James D. Cooper', with a long horizontal line extending to the right.

James D. Cooper
Assistant Director Minerals

cc: David T. Terry
John W. Andrews
Dick Manus - BLM
Mark Mackiewicz - BLM
Daron Haddock - DOGM
Richard D. Pick - Canyon Fuel Co.
Rick Olsen - Canyon Fuel Co.
Ken Payne - Canyon Fuel Co.