

May 24, 2006

Erwin Sass, General Manager  
Canyon Fuel Company, LLC  
P. O. Box 1029  
Wellington, Utah 84542

Subject: Conditional Approval of Degas Wells G-11 and G-12, Canyon Fuel Company, LLC, Dugout Canyon Mine, C/007/0039, Task ID #2455, Outgoing File

Dear Mr. Sass:

Your recent application to amend your mine plan (Task ID #2455) to permit two additional degasification wells (G-11 & G-12) for the Dugout Canyon Mine is conditionally approved.

Upon receipt of five clean copies of the complete application, the Division will grant final approval. Upon final approval, you may proceed with the associated drilling activities. Please submit the required five clean copies by June 30, 2006.

The Permittee will apply for a post-mining land use (PMLU) change for these two well sites to remain as commercial sites pursuant to the landowner's request. This requirement has been discussed with Ms. Vicky Miller of your environmental department and she will modify the clean copies of the application accordingly.

Part of the Division's approval process for wells G-11 and G-12 required obtaining the consent of the State of Utah, School and Institutional Trust Lands Administration. It was determined that a modification to the SITLA Plan of Operation for ML 48435 was needed to approve these two wells.

The BLM notified SITLA on May 11, 2006, that it concurred with CFC's proposal to add the two proposed wells to enhance the mine's ventilation system. SITLA subsequently notified the Division of Oil, Gas and Mining on May 15, 2006 of its consent to add wells G-11 and G-12 (and all future degasification drill holes upon the SITLA Dugout Canyon coal tract), provided that the Permittee meets the following stipulations:

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- 1) The Permittee must provide a surveyed location to the BLM for each degasification drill hole.
- 2) The plugging requirements for each degasification drill hole are no less stringent than BLM plugging requirements for similar drill holes. The Permittee has committed to meeting the Federal well plugging requirements mandated in 43 CFR Ch. 11, Subpart 3484.1, (3), (See Attachment 5-2, Chapter 5, of the Task ID #2455 application).
- 3) The Permittee must have the consent of the surface owner or the surface management agency to drill. The Permittee has provided this consent via the surface use agreement contained as ATTACHMENT 4-2, SURFACE LAND OWNER AGREEMENT, (See Dugout Canyon Mine, Methane Degasification Amendment, Wells G-1 through G-10).

A copy of the updated Master technical analysis (MTA) document for the Dugout Canyon Mine will be forwarded to Canyon Fuel Company (CFC), LLC, when it is updated to include degasification wells G-11 through G-17. Wells G-13 through G-17 are currently being processed by the Division.

If you have any questions, please contact me at (801) 538-5286 or Peter Hess, Team Lead, at (435) 613-1146, Ext. 203.

Sincerely,

D. Wayne Hedberg  
Permit Supervisor

PHH/sd  
Enclosure

cc: John Blake – SITLA  
Pete Hess – DOGM (PFO)  
Stank Perkes – BLM-Salt Lake Office  
Steve Falk – BLM-Price Office  
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