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DEPARTMENT OF NATURAL RESOURCES

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September 11, 2008

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

Subject: Letter Of Intent to Conduct Minor Exploration, Canyon Fuel Company, LLC, Dugout Canyon Mine, C/007/039, Task ID #3037, Outgoing File

Dear Mr. Sass:

Ark Land submitted an exploration plan to drill a total of two exploration holes within the Dugout Canyon permit area fall of 2008. The plan is formatted to follow the applicable portions of Coal Exploration Rules R645-200 through R645-203.

The drilling is planned for early September to the end of October of 2008. The Permittee anticipates completing all drilling and reclamation activities associated with this project within approximately 60 days upon implementation.

The above-referenced amendment is conditionally approved upon the permittee agreeing on one conditions set forth below.

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

R645-202-234, The applicant must show necessary proof of obtaining water rights to conduct drilling in the exploration area.

If you have any questions, please feel free to call me at (801) 538-5262 or Stephen J. Demczak at (435) 613-3732.

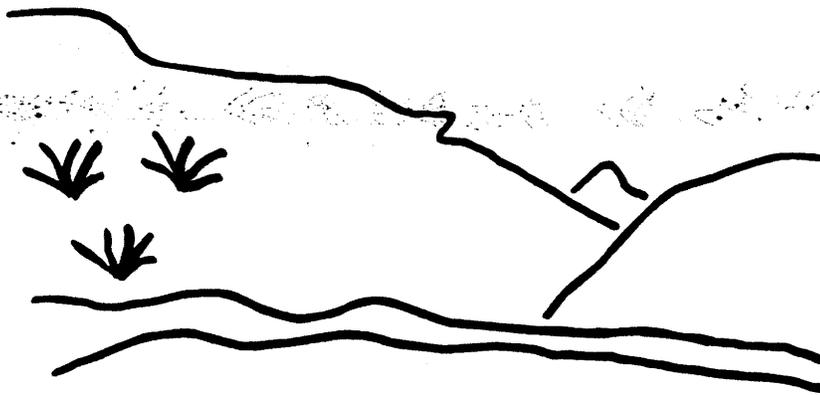
Sincerely,

James D. Smith
Permit Supervisor

an
Enclosure
cc: Price Field Office
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State of Utah



Utah Oil Gas and Mining

Coal Regulatory Program

C/007/039

Task ID #3037

Minor Exploration Analysis and Findings

September 11, 2008

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EXPLORATION TECHNICAL ANALYSIS

INTRODUCTION

Ark Land Company has submitted a Notice of Intent to the Division to conduct Minor Coal Exploration at the Dugout Mine. The company plans to drill two holes into the coal seam. The purpose of the exploration is coal quality and seam thickness. The applicant will remove less than 250 tons of coal.

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INTRODUCTION

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 made 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:

R645-202-234, The applicant must show necessary proof of obtaining water rights to conduct drilling in the exploration area.

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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:

The applicant (Ark Land Company) has submitted a Notice of Intent to Conduct Minor Coal Exploration. The drilling will take place on private surface and State coal lease (SILTA). The applicant has the necessary signed agreement/contracts from the surface landowner and SILTA.

Findings:

The applicant has met the minimum requirement of the coal rules.

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 applicant submitted a Notice of Intent to the Division. Since the drilling site is on Fee land and the coal lease is from SILTA.

The applicant submitted the required information in the Letter of Intent with a narrative, maps, and schedule.

Findings:

The applicant has met the minimum requirement of the coal rules.



COMPLIANCE DUTIES

COMPLIANCE DUTIES

Regulatory Reference: 30 CFR 772.13; R645-202.

OPERATIONAL STANDARDS

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

Analysis:

Biology

Page 6 of the application describes the vegetative communities in the exploration sites as mountain brush, pinyon-juniper and sagebrush. According to the survey performed by Pat Collins of Mt. Nebo Scientific there were no threatened, endangered or sensitive plant or animal species located within the proposed drill site locations.

The application also includes the following wildlife information in Appendix A:

- A current list of Threatened and Endangered plant, animal and fish species,
- A statement regarding the absence of Threatened and Endangered and Sensitive species, (plant, fish and animal), and a rationale for their absence that may be located within the proposed drill site locations,
- Vegetation and wildlife maps 3-1 and 3-2 that include the location of the proposed drill sites are found in volume three of the MRP,
- A 2007 raptor survey indicating that there are no active nests within ½ mile of the proposed drilling locations,
- A 2007 Northern Goshawk survey. The calling survey conducted over a period of four weeks indicated that there were no responses from Goshawks. There were no nests located within ½ mile of the proposed drill site locations.
- A calling point survey was also conducted for the Mexican Spotted Owl. There were no responses according to the results of the survey.

The Bald Eagle may visit the area during winter periods of migration. Eagles do not typically nest in Utah, although there are eight known nesting pairs in the state. The exploration

activities are scheduled for September of 2008 and would not affect the birds. There are no threatened or endangered or sensitive plant or animal species located in the proposed drill hole locations. Sensitive wildlife species include the Spotted Bat, Townsend's Big Eared Bat, the Northern Goshawk, Flamulated Owl and Three Toed Woodpecker. There is suitable habitat for the Goshawk, and three toed Woodpecker, and marginal habitat for the Flamulated Owl in the mixed conifer forests on the north facing slopes of the drainages. Since the exploration sites are located in open areas these species' habitats would not be affected by the drilling activities. Managemnt Indicator Species include Elk, MuleDeer, the Northern Goshawk, Golden Eagle and Macroinvertebrates. According to the report they would not be affected by the helicopter-drilling project.

The drilling activities are scheduled for the 15th of September, which is not during any wildlife exclusionary periods.

HISTORIC AND ARCHEOLOGICAL RESOURCE INFORMATION

Regulatory Reference: 30 CFR 783.12; R645-301-411.

Analysis:

The application includes a site-specific cultural resource evaluation for the proposed drill hole locations. (Senco-Phoenix report No. SPUT-577, Appendix B). A class three pedestrian survey was completed on July 19th and 24th of 2008. The project area covered a 110 acre pedestrian survey of the proposed drill hole locations. The 2 exploration sites can be located on the Mount Bartles and Pine Canyon 7.5 minuet quadrangle maps, township 13 south range 13 east in sections 29 and 30. The project areas are located within the Pace Creek and Dugout Creek drainages.

According to the survey there were no known districts, sites, buildings, structures, or objects listed on or eligible for listing on the National Register of Historic Places. The survey results also provided a finding of "no historic properties affected". A copy of the survey was forwarded to the State Historic Preservation Office. The Division received their concurrence from the SHPO by way of "E" mail correspondence on September 10, 2008.

Roads

The applicant will use existing road to drill both holes. This can be seen on Figure: 2 in the Letter of Intent. Applicant plans not to construct new roads for this project. Figure: 2 show that the drill holes are on or adjacent to the existing drill holes.

Topsoil

COMPLIANCE DUTIES

The applicant will save or salvage 12 inches of topsoil in the pad areas. This material will be used for reclamation of the pad after drilling is completed. The drill pad will be approximately 100 feet by 100 feet.

Diversions of Overland flows and streams

The applicant will not divert water from overland flows or ephemeral, perennial, and or intermittent streams.

The applicant has submitted an application for "Temporary Change" to Division of Water Rights to use local drainages for drilling.

Hydrologic Balance

The pads will be constructed to prevent sediment from leaving the pad sites. Berms will be constructed around the pads to minimize the disturbance to the prevailing hydrologic balance.

Acid- or toxic forming materials

Based on existing data from in mine samples of roof and floor there is a small potential of acid or toxic forming material. The samples were taken in 2008. The applicant has stated the left over drilling cores will be covered by four feet of cover either at the drill site or Dugout refuse pile.

Findings:

The applicant has met the minimum requirement of the coal rules.

RECLAMATION STANDARDS

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

Analysis:

Approximate original contour

The applicant will reclaim the drill pad to approximate original contour.

Revegetation

The applicant will use native species in the immediate area. The list of species is on Page

11 of application. Priscilla Burton review list and found it acceptable.

Boreholes

The applicant will be plugged with cement and the hole above the coal seam with bentonite to the full depth. A monument marker will be placed in the top of the cement.

Facilities and Equipment

All equipment will be moved once the drilling and reclamation is finished.

Findings:

The applicant has met the minimum requirement of the coal rules.

PUBLIC AVAILABILITY OF INFORMATION

Regulatory Reference: 30 CFR 772.15; R645-203.

Analysis:

The applicant has requested that any drilling information will be confidential.

Findings:

The applicant has met the minimum requirement of the coal rules.