



State of Utah
 DEPARTMENT OF NATURAL RESOURCES
 DIVISION OF OIL, GAS AND MINING

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August 21, 2002

Mark Bunnell, Geologist
 Ark Land Company
 c/o Skyline Mines
 HC 35 Box 380
 Helper, Utah 84526

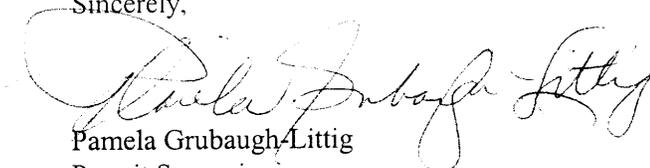
Re: Approval of Muddy Tract Exploration (SITLA Coal), Canyon Fuel Company, LLC, SUFCO Mine, C/041/002-EX02D-1, Outgoing File

Dear Mr. Bunnell:

The above-referenced Letter of Intent is approved for Drill Hole #02-0-1. The applicant may commence drilling after September 1. The Forest Service granted right of entry for this drill hole on August 5, 2002 (File Code #2820-4) and School and Institutional Trust Lands Administration (SITLA) granted right of entry to conduct drilling on July 3, 2002.

Enclosed is an approved stamped copy of this Letter of Intent. If you have any questions, please call me at (801) 538-5268 or Stephen J. Demczak at (435) 613-5242.

Sincerely,

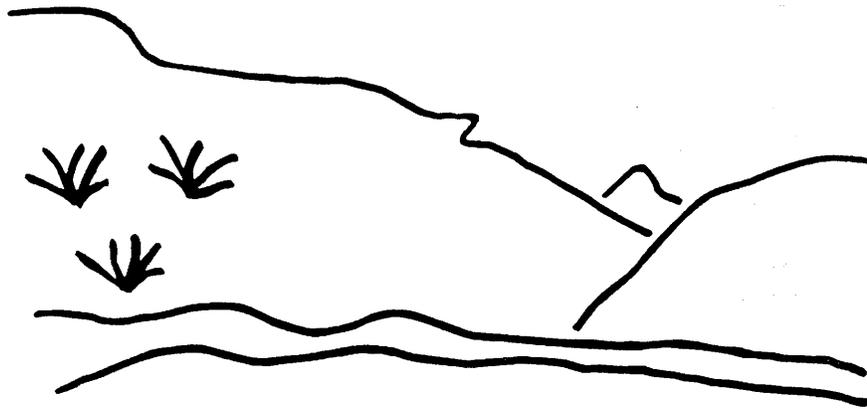

 Pamela Grubaugh-Littig
 Permit Supervisor

SJD/sd
 Enclosure

cc: Ranvir Singh, OSM, w/o enc
 Tom Rasmussen, BLM, w/o enc
 Elaine Zieroth, USFS
 Rob Mrowka, USFS
 Tom Faddies, SITLA
 Mark Page, Water Rights, w/o enc
 Dave Ariotti, DEQ, w/o enc
 Derris Jones, DWR, w/o enc
 Price Field Office

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State of Utah



Utah Oil Gas and Mining

Coal Regulatory Program

SUFCO Mine
Muddy Tract Exploration
C/041/002-EX02D-1
Minor Exploration Analysis and Findings
August 12, 2002

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EXPLORATION TECHNICAL ANALYSIS

INTRODUCTION

Ark Land Company is submitting a Notice of Intent to conduct Minor Coal Exploration on behalf of Canyon Fuel Company, LLC-SUFCO Mine. The permittee is proposing to drill one hole (#02-9-1) into the coal seam. The coal is under the jurisdiction of the School and Institutional Trust Lands Administration (SILTA). The United States Forest Service is the surface owner.

A decision document with file code 2820-4 from the US Forest Service grants Ark Lands the right of entry to drill hole #02-9-1.

A letter dated July 3, 2002 from School and Institutional Trust Lands Administration has given Ark Lands the right of entry to conduct drilling on drill hole #02-9-1.

The exploration will take place on the Muddy Tract Coal Lease, seven miles from the town of Emery. The permittee will remove approximately 100 to 175 lbs. of coal from this drill hole.

The permittee plans to start drilling the second week of July 2002. It is planned that the project will take four weeks from start to finish, including the reclamation of the drill site. This may vary due to weather conditions.

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August 12, 2002

INTRODUCTION

SUMMARY OF PERMIT CONDITIONS

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:

- 1) The NOI approval must be conditioned to allow drilling from September 1 to March 1 until completion of the Mexican Spotted Owl survey.

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SUMMARY OF PERMIT CONDITIONS

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:

Ark Land Company has submitted information to address the requirements of the state program and to meet requirements of R645-200 through R645-203. The permittee has classified this action as a Notice of Intention to Conduct Minor Coal Exploration and to comply with the State Program. The permittee has specified that certain material not be available to the public.

Findings:

The information given is to address the requirement of State program and R645-200 through R645-203. The information that was submitted is complete.

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:

R645-201-221; This coal rule requires the applicant to give name, address, and telephone number of the applicant's representatives, who will be present at and responsible for conducting the exploration operations. This information was within the Notice of Intent.

R645-100-400, R645-200-100, R645-200-200, and R645-201-100; Ark Land Company has given a Notice of Intention to Conduct Minor Coal Exploration with a narrative and map describing the exploration area and indicating where the exploration will occur.

The permittee will transport all drilling equipment, materials, and personnel by rubber tire equipment, except a D-8 cat will be used for road work and to level off the drill site. The access to the drill site will be by using existing US Forest Service development roads. A short access road will be constructed from U.S. Forest Service development road #044.

COAL EXPLORATION

The drill site will be approximately 0.23 acres of disturbance. Earth excavation for the drill site will be by using a D-8 Cat dozer. Additional work will be done using a trackhoe and /or rubber-tired backhoe. The excavation will include removal and storage of the soil A-horizon. Material below the A-horizon will be stored separately. One of the two mud pits will be below the A-horizon.

The exploration will take place on the Muddy Tract Coal Lease, seven miles from the town of Emery. The permittee will remove approximately 100 to 175 lbs. of coal from this drill hole. This will be achieved by drilling a 3-3/16 inch diameter hole. Upon completion, the drill hole will be sealed with cement/bentonite from the bottom of the hole to ground level.

The permittee plans to start drilling the second week of July 2002. It is planned that the project will take four weeks from start to finish, including the reclamation of the drill site. This may vary due to weather conditions.

Findings:

The applicant has given all of the necessary information as requirements of R645-201-221 such as name, address, and telephone number.

The permittee has submitted the necessary information to comply with regulations R645-100-400, R645-200-100, R645-200-200, and R645-201-100 in the analysis.

COMPLIANCE DUTIES

Regulatory Reference: 30 CFR 772.13; R645-202.

Analysis:

Ark Land Company will disturb the natural land surface while conducting the exploration of the additional drill hole. The drill hole site will be located in an area requiring some leveling. Drilling equipment and material will be brought in by rubber tire equipment to the sites except for the D-8 Cat dozer. This will be used for 1,300 ft of road construction and drill hole site preparation. The permittee will remove vegetation at the drill site.

The operator has committed in the Notice of Intent to clean-up spills and to scarify and seed all disturbed areas.

Findings:

The information submitted complies with the requirements of R645-202-100.

COAL EXPLORATION

OPERATIONAL STANDARDS

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

Analysis:

Biology

The surface of the proposed drilling location is managed by the Manti-La Sal National Forest. The Forest evaluated all threatened and endangered plant and animal species that were identified in a FWS letter dated November 2001 in a Biological Assessment (BA) and sensitive species in a Biological Evaluation (BE). The Forest BA summary of effects was no effect on threatened and endangered plant and animal species and a may impact individuals, but not likely to contribute to a listing for the flammulated owl.

The Mexican Spotted Owl was not identified on the FWS list sent to the Forest. Frank Howe, DWR, Avian Program Coordinator, was ask about the need to survey for the Mexican Spotted Owl in the area in November 2001. He said canyons close to this drill site should be surveyed. Beginning in 2002, the Forest initiated Mexican Spotted Owl surveys in preparation for leasing the Muddy Tract coal reserves. No owls were found the first year of monitoring. Drilling cannot take place during the breeding season until after completion of the survey and no owls are found.

U.S. Forest Service guidelines prohibit drilling before July 15. The U.S. Forest Service will look for sage grouse habitat and conduct goshawk surveys prior to drilling (phone call with Cara Stabb, Manti-LaSal National Forest, on April 30, 2002). The Division will look for U.S. Forest Service comments prior to approval of this application.

The Forest did identify a sage grouse lek 2 miles from the drill site. No sign of sage grouse use was observed on the proposed drill pad. Disturbance will result in the loss of sagebrush, an obligate species for the sage grouse. The Forest may require mitigation for habitat loss associated with this project.

Cultural Resources

EarthTouch, LLC, conducted the Cultural Resource inventory in 2002. No cultural resource properties were identified on the proposed drill pad or access road.

Roads

R645-202-232; Ark Land Company will use existing U.S. Forest Service Development Roads to conduct exploration. The roads that will be used are development roads #044 and #007. The permittee will also obtain a Road Use Permit from the U.S. Forest Service. This permit contains a bond in case the roads are damaged.

A short access road will be constructed from FDR #044 to the drill site as shown on Map 3. The road follows an existing wheel track that provides access to a cattle pond. The road would be widened to 14 ft. and smoothed. Road length is approximately 1300 ft. This road will be used for a short period of time. The timetable on Page 4 shows the road will be reclaimed in the fourth week of the drilling project. Therefore, this road will not be a primary road due to the short life span of the road. The acreage to be disturbed for roadwork will be 0.48 areas.

The operator proposes to widen to a 14-foot width; an existing wheel track that provided access to the cattle pond. Generally, drilling operations do not require that type of clearance. Evidence must be provided that the current two-track is not sufficient transportation for the drilling equipment. The operator must commit to minimizing disturbance.

Topsoil

Topsoil will be saved, and protected by silt fences or other types of sediment control measures. The A-horizon will be saved and soils below the A-horizon will be saved during the in the construction of the mud pits.

Diversions of Overland flows and streams

The applicant states on page 5 of the submittal that there will be no diversion of overland flows; however, the proposal describes that water will be pumped from either North or South Fork of Quitcupah Creek; locations are shown on Map 2. Rule R645-301-742.312.4 requires the applicant to comply with local, Utah, and federal laws and regulations. The applicant should ensure that water rights issues are addressed for diverting from the stream and that any pumping activities and that any land disturbance is restored in accordance with R645-301-742.313.

A two-foot high berm will be constructed around the drill site to prevent runoff of water or other fluids from the drill pad. Silt fence will be installed around the pad to prevent downslope movement of sediment from the drill site. The applicant states that all fluids will be contained on the project site in mud pits or portable containers.

Hydrologic Balance

The applicant states that the drill hole will be sealed using cement or cement/bentonite slurry.

The applicant states that the drill hole will not be completed as a monitoring well, since a monitoring well will be established about one mile south west of this site.

COAL EXPLORATION

Acid- or toxic forming materials

The applicant has committed to monitoring the core samples for acid and toxic forming materials. Samples will be taken from the 10 ft. interval above and below the Upper Hiawatha Coal seam.

Findings:

The information provided does meet the minimum regulatory requirements of this section. However, the NOI approval must be conditioned to allow drilling from September 1 to March 1 until completion of the Mexican Spotted Owl survey.

RECLAMATION STANDARDS

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

Analysis:

Approximate original contour

Ark Land Company will scrape off the vegetation and remove the topsoil from the drill site. The total disturbed area, including the upgrade of an existing road and drill pad, is 0.71 acres.

Revegetation

The Division has found that using the extreme surface roughening methods described in The Practical Guide to Reclamation in Utah (www.dogm.utah.gov) work better for controlling erosion and establishing vegetation than crimping mulch. Surface mulch can be incorporated during the roughening process.

All organic material grubbed from the drill pad will be salvaged to use as a surface mulch during reclamation operations. It is recommended that only materials native to the site be used as mulch. Noxious weed-free straw or hay will introduce additional non-noxious weeds.

The seed mixture does not meet the requirements of R645-202-200. Not all of the proposed species are native to the area to be disturbed. The Forest Service has requested the seed mixture specified.

Boreholes

The main drill hole diameter will be 3-3/16 inches diameter. The depth of the hole will be approximately 1,400 feet with 200 to 300 feet of surface casing.

Upon completion of the drilling, the hole will be plugged with cement or cement/bentonite slurry to its full depth. The collar of the monitor well will be identified as to hole number and operator. A brass tag will be placed at the top of the drill hole stating the operator's name, drill hole number, and legal description.

Facilities and Equipment

R645-202-244 through R645-202-244.300: All drilling equipment and materials will be removed from the drill area once drilling is completed. Sealing will start thereafter, and all equipment and material for sealing the drill hole will be removed, when sealing is completed.

No facilities are to be built during this exploration program.

Findings:

The information provided meets the minimum regulatory requirements of this section.

PUBLIC AVAILABILITY OF INFORMATION

Regulatory Reference: 30 CFR 772.15; R645-203.

Analysis:

Ark Land Company has requested that the Division not make any drilling information available for public inspection relative to coal seam thickness or quality.

Findings:

The permittee has met the minimum requirements of this section in the Notice of Intent.