



Canyon Fuel Company, LLC. Sufco Mine

A Subsidiary of Arch Western Bituminous Group, LLC.

JRB Coal program

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October 30, 2006

Mr. John R. Baza Division Director Division of Oil, Gas and Mining 1534 West North Temple, Suite 1210 Salt Lake City, Utah 84114-5801

Mr. Jerry D. Olds, P.E. Utah State Engineer Utah Division of Water Rights P. O. Box 146300 Salt Lake City, Utah 84114-6300

Re: Material Damage Finding, North Water Springs, (Pines 105) Canyon Fuel Company, LLC, SUFCO Mine, C/041/0002

Gentlemen:

We have reviewed your recent correspondence with Warren Peterson of Waddingham and Peterson, dated October 18, 2006, and the letter from Mesia Nyman, District Ranger of October 20, 2006.

Canyon Fuel concurs with the conclusion that the water of the North Water Spring is naturally tributary to the Muddy Creek drainage. The Muddy Creek drainage is considered fully appropriated, and this indeed includes all sources that are tributary to Muddy Creek; including the water from this spring. Further, because this is appropriated water, the interference with the spring's flow caused by coal mining activities should be addressed as a water replacement matter under the Coal Mining Rules and not as a material damage claim as originally concluded by both Divisions. The permanent mitigation plan we are preparing will address the replacement of this water and any necessary site revegetation to restore the riparian areas.

CFC appreciates the reevaluation of this issue by the Division of Water Rights and the Division of Oil, Gas and Mining. If you have any questions, please do not hesitate to contact me.

Very truly yours,

Chris D. Hansen

Chris D. Hansen Environmental Coordinator Canyon Fuel Company, LLC

CC: Mesia Nyman, District Ranger Manti LaSal National Forest Ken May, General Manager Sufco Mine

RECEIVED OCT 30 2006 DIV. OF OIL, GAS & MINING

Handwritten notes: JRB, Coal program, OK, [Signature], C/041/0002, Copy Wayne H., Steve Fluke, Susan, [Signature]