



United States Department of the Interior

BUREAU OF LAND MANAGEMENT
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SL-062583, UTU-76195

(UT-923)

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Mr. Kenneth E. May
 Mine Manager
 Canyon Fuel Company, LLC
 SUFCO Mine
 397 South 800 West
 Salina, Utah 84654

Incoming
c/o 41/0002
Mary Ann, Wayne H,
Wayne N, Pete, Steve F,
Pam

Re: Minor Modifications to Resource Recovery and Protection Plan (R2P2), 6 Left and 3 Pines East Area, SUFCO Mine

Dear Mr. May:

The Bureau of Land Management (BLM) has received and reviewed the submitted R2P2 modifications for mining on Federal Coal Lease UTU-76195 in the 3 Pines East area of the SUFCO Mine. This letter responds to the most recent 6 Left R2P2 modification request and to other unresolved modification requests, and updates the recoverable coal reserve base for Federal Coal Lease UTU-76195. Also included in this letter is a brief history of the modification requests and approvals made to the UTU-76195 R2P2 since October 14, 2004, which is the most recent approval date for the recoverable reserve base tons on this lease.

On January 18, 2005, the BLM received a minor R2P2 modification package from Canyon Fuel (dated January 11, 2005) requesting the termination of the 5 Left longwall development following the discovery of a sandstone channel system which had scoured the coal to unminable thicknesses. Canyon Fuel reported on their R2P2 submittal map that 865,600 tons of coal were lost from the recoverable reserve base, with 99,500 continuous miner development tons lost, and 766,100 longwall production tons lost. The scour location in 6 Left was also projected.

On May 11, 2005, the BLM formally approved the extraction of the 5 Left Pines East longwall panel (panel #27) from crosscut 70 (the location of the scour in the 5 Left headgate), conditional on a prior evaluation of recoverable coal reserves in areas north and east of the lease. Adjustments to this lease's recoverable coal reserve base were not made at this time.

In response to the May 11th approval, Canyon Fuel submitted a brief letter and a map (dated July 21, 2005 and received July 28, 2005) describing their proposed long-term mining plans

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for 3 Pines East. In their letter, Canyon Fuel indicated that coal reserves north of the scour were not economic, and notified the BLM of an upcoming partial relinquishment request. The longwall panel east of 6 Left (7LPE or longwall panel #29) was removed from this plan, as indicated by the map, and was partially replaced by possible continuous miner workings. Potential recovery from these then-uneconomic workings was estimated to be 1,360,000 tons of coal. The company had discussed these plans in more detail at an in-person meeting with the BLM on January 26, 2005.

On September 19, 2005, the BLM approved the extraction of the 5LPE longwall panel, and the development of 6 Left entries to the scour location. The BLM agreed with Canyon Fuel that recoverable reserves north of the channel scour would be problematic and economically inaccessible, assuming similar scour conditions were encountered in the 6 Left development. The BLM also approved the updated mine plan map, which includes the elimination of the 7LPE panel and other longwall mining east of 6 Left. As a condition of the September 19th modification approval, the BLM required a detailed, quarterly economic update of the room and pillar plans located east of 6 Left. Again, the recoverable reserve base was not updated.

In the most recent R2P2 modification request (dated January 26, 2006 and received February 3, 2006), Canyon Fuel reported the discovery of the sandstone channel system in the 6 Left entries just inby crosscut 49, and approximately 700 feet further south than anticipated. Canyon Fuel seeks to permanently halt the northward development of 6 Left, and to mine the longwall set up rooms and bleeder entries for the 6LPE (panel #28) panel at crosscuts 48 and 49 of 6 Left, respectively. A partial lease relinquishment submitted by Canyon Fuel for the north and northeast portions of the lease was received on March 27, 2006.

The BLM inspected the 6 Left area (on January 25, 2006 and again on June 7, 2006), noted the conditions, and agreed that the longwall cannot mine through this scour zone without causing unacceptable coal quality and adverse impacts to machinery. Verbal approval was given at that time to stop northward development of 6 Left. The coal is scoured to less than 7 feet, with an abrupt dip in the seam directly in front of the scour. The replacement rock of the channel is a hard, fine-grained, massive sandstone, and is mined only with great difficulty by continuous miners. At the minimum mining height, the longwall shearer would have to try to cut 1 foot or more of roof sandstone with the coal. By mining the 6LPE longwall panel from the new location, the upper roof splay material encountered in the 5 Left gateroads will also be avoided. Canyon Fuel is authorized to halt northern development of 6 Left Pines East, to mine the longwall set-up rooms and bleeder entries at crosscuts 48 and 49, respectively, and to extract the 6LPE longwall panel from this location, as proposed.

With its discovery in 6 Left, the sandstone channel system most likely extends across the full width of the Federal coal lease, cutting off all reasonable access to recoverable coal to the north. This presumption is supported by the outcropping of sandstone channels in Muddy Canyon that appear to line up with in-mine channel measurements. A horizontal drillhole and mining through the scour in 3 Left entries indicates the channel thickness to be 200 to 400 ft wide (where coal is less than 6 ft thick). The BLM agrees that economic and practical access to the Pines North area from existing SUFCO Mine workings is not possible, and approves Canyon Fuel's plans to abandon projected mining north of the scour.

The BLM has also evaluated the complex geology of a number of rock partings found along the east edge of 6 Left, and agrees with Canyon Fuel's interpretation that longwall mining east of 6 Left is uneconomic due to difficulty in maneuvering between rock splits present in

the coal. Ventilation and access to the East Pines area must be maintained. An economic evaluation of potential continuous miner reserves east and south-east of 6 Left, including planned dates for their possible future mining, must be submitted to the BLM within 90 days. This evaluation should not include resources already submitted for relinquishment.

The BLM has estimated the remaining reserves on UTU-76195, and agrees with the preliminary estimated recoverable reserve base of 40,561,325 tons provided by Canyon Fuel in their July 21, 2005 letter. This estimate was determined by summing the approximated remaining recoverable reserves existing as of July 1, 2005 as shown in the updated mine plan, and the total tons of coal mined through the same date. An additional 361,000 tons of coal were removed from Canyon Fuel's July 1st estimate to account for the scour-induced shortening of the 6LPE panel. The updated recoverable reserve base for lease UTU-76195 as of the date of this letter is 40,200,000 tons.

Potential room-and-pillar reserves at the east and southeast end of 6 Left are not included in the updated recoverable reserve base. A total of 7,993,740 unminable tons from areas north and northeast of 6 Left, as depicted by Canyon Fuel in their relinquishment map received on March 27, 2006, are included in this reduction to the recoverable reserve base. Of these 7,993,740 tons of coal, Canyon Fuel designates 5,288,916 tons as requested for relinquishment, and 2,704,824 tons as lost due to the scour.

This approval of a minor modification to an existing R2P2 is Categorically Excluded from National Environmental Policy Act (NEPA) analysis since no surface disturbance will occur from this action. Refer to Overview of BLM's NEPA Process, February 1997, Appendix 2, page 2-7 (F)(7).

The BLM has determined that the proposed modification complies with the Mineral Leasing Act of 1920, as amended, the regulations in 43 CFR 3480, and the lease terms and conditions. This action will achieve Maximum Economic Recovery (MER) of the Federal coal involved.

This written approval of Canyon Fuel's 6 Left mine plan modification confirms verbal approval given on January 25, 2006. If you have questions or comments, please contact Stephen Falk at the Price Field Office at (435) 636-3605 or Jeff McKenzie of my staff at (801) 539-4038.

Sincerely,

JAMES F KOHLER

James F. Kohler
Chief, Solid Minerals

Enclosures
Approved Mine Maps

cc: UT-070, Price, Utah (w/ enclosures)
Utah Division of Oil Gas and Mining (w/o enclosures)
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