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SECRETARY, BOARD OF
OIL, GAS & MINING

**BEFORE THE BOARD OF OIL, GAS AND MINING
DEPARTMENT OF NATURAL RESOURCES
STATE OF UTAH**

IN THE MATTER OF THE AMENDED REQUEST FOR AGENCY ACTION OF ANADARKO PETROLEUM CORPORATION FOR AN ORDER FIRST MODIFYING THEN PARTIALLY VACATING THE BOARD'S ORDERS IN CAUSE NOS. 241-1 AND 241-4 AND INSTEAD ESTABLISHING A SPECIAL 640-ACRE DRILLING AND SPACING UNIT FOR THE PRODUCTION OF GAS (INCLUDING BUT NOT LIMITED TO COALBED METHANE) FROM THE FERRON FORMATION, COMPRISED OF ALL OF SECTION 20, TOWNSHIP 13 SOUTH, RANGE 10 EAST, SLM, CARBON COUNTY, UTAH, AND AUTHORIZING THE DRILLING OF A MULTI-LATERAL HORIZONTAL WELL AND ITS CONCURRENT PRODUCTION WITH EXISTING WELLS UPON SUCH UNIT SO ESTABLISHED.

**FINDINGS OF FACT
CONCLUSIONS OF LAW
AND ORDER**

Docket No. 2006-004

Cause No. 241-07

This Cause came on for hearing before the Utah Board of Oil, Gas and Mining (the "Board") on Wednesday, February 27, 2008, at approximately 12:30 p.m. The following Board members were present and participated at the hearing: Robert J. Bayer, Samuel C. Quigley, Jean Semborski, Jake Y. Harouny, and Ruland J. Gill, Jr. Chairman Douglas E. Johnson and Kent R. Petersen were unable to attend; Mr. Bayer served as Acting Chairman in Mr. Johnson's stead. While Mr. Harouny participated in the hearing, he had other commitments which required him to be excused prior to the vote being held in this Cause. The Board was represented by Michael S. Johnson, Esq., Assistant Attorney General.

Testifying on behalf of Petitioner Anadarko Petroleum Corporation ("Anadarko") were Jessica Pink, Esq. – Landman; Ann Puchalski – Senior Geologist; Brian Roux – Senior

Staff Reservoir Engineer; and John R. Strahan, III – Drilling Engineer. Frederick M. MacDonald, Esq., of and for Beatty & Wozniak, P.C., appeared as attorney for Anadarko.

Testifying on behalf of the Division of Oil, Gas and Mining (the “Division”) was Bradley G. Hill - Oil and Gas Permitting Manager. James P. Allen, Esq., Assistant Attorney General, appeared as attorney on behalf of the Division. The Division expressed its support for the granting of Anadarko’s Amended Request for Agency Action dated January 10, 2008 (the “Request”) at the conclusion of its presentation.

At the conclusion of Anadarko’s and the Division’s presentations, Michael Coulthard, Petroleum Engineer, Utah State Office, United States Bureau of Land Management (“BLM”), made a statement expressing the BLM’s support for the granting of the Request. No other party filed a response to the Request and no other party appeared or participated at the hearing.

The Board, having considered the testimony presented and the exhibits received into evidence at the hearing, being fully advised, and for good cause, hereby makes the following findings of fact, conclusions of law and order.

FINDINGS OF FACT

1. Anadarko is a Delaware corporation in good standing, with its principal places of business in The Woodlands, Texas and Denver, Colorado. Anadarko is duly qualified to

conduct business in the State of Utah and is fully bonded with all appropriate Federal and State agencies.

2. By virtue of its Orders entered on January 2, 1998 in Cause No. 241-1 (the "241-1 Order") and entered on September 26, 2000 in Cause No. 241-4 (the "241-4 Order"), the Board established 160-acre (or substantial equivalent) drilling units, each comprised of a governmental quarter section or combination of lots and quarter-quarter sections substantially comprising the same, for the production of gas (including coalbed methane) from the Ferron formation, defined as follows:

the stratigraphic equivalent of the interval from 1,968 feet below the surface to 2,214 feet below the surface as shown in the density log for the Birch A-1 well located in the SW $\frac{1}{4}$ of Section 5, T14S, R10E, SLM

(the "Subject Formation"), for subject Section 20, among other lands within Anadarko's Helper field, and ruled only one well on each unit producing gas in the Subject Formation would be allowed. The Board further ordered that the permitted well for each such unit shall be located no closer than 460 feet from the outer boundary of said unit and no closer than 920 feet from other wells completed and producing from the Subject Formation unless otherwise permitted by administrative action approved by the Division in compliance with Utah Admin. Code Rule R649-3-3.

3. In accordance with the 241-1 and 241-4 Orders, Anadarko drilled the following vertical wells which have been completed and produce gas from the Subject Formation and each of which currently constitutes the authorized well for the identified drilling unit:

<u>Well</u>	<u>Location</u>	<u>Applicable Drilling Unit</u>
Helper Federal E-5	1,054' FSL/979' FWL (SW ¹ / ₄ SW ¹ / ₄)	SW ¹ / ₄
Helper Federal E-6	2,598' FNL/987' FWL (SW ¹ / ₄ NW ¹ / ₄)	NW ¹ / ₄
Blackhawk A-3	1,998' FNL/821' FEL (SE ¹ / ₄ NE ¹ / ₄)	NE ¹ / ₄
Blackhawk A-1X	1,157' FSL/886' FEL (SE ¹ / ₄ SE ¹ / ₄)	SE ¹ / ₄

4. Ownership and the leasehold status of the gas in the Subject Formation in subject Section 20 are as follows:

<u>Owner</u>	<u>Lands</u>	<u>Applicable Lease</u>
United States of America	S ¹ / ₂ NW ¹ / ₄ , N ¹ / ₂ SW ¹ / ₄ and SW ¹ / ₄ SW ¹ / ₄	UTU-71675
	NE ¹ / ₄ SE ¹ / ₄	UTU-81693
State of Utah	SE ¹ / ₄ SE ¹ / ₄	ML-45801
Blackhawk Coal Company ("Blackhawk")	NE ¹ / ₄ less 12.12-acre m&b tract, N ¹ / ₂ NW ¹ / ₄ , W ¹ / ₂ SE ¹ / ₄ and SE ¹ / ₄ SW ¹ / ₄	Bk. 541/Pg. 755 Carbon County Records

Union Pacific Railroad Company ("UPRC")	12.12-acre m&b tract in NE $\frac{1}{4}$	unleased
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Except as to the unleased tract, Anadarko is the sole lessee and working interest/operating rights owner. There are no overriding royalty or other production interest owners.

5. In conformance with the 241-1 and 241-4 Orders and the correlative rights established pursuant thereto, and as required by Federal and State regulation, Communitization Agreement Nos. UTU-80978 (NW $\frac{1}{4}$), UTU-80979 (SW $\frac{1}{4}$) and UTU-84242 (SE $\frac{1}{4}$) were signed by Anadarko (both on its own behalf and on behalf of Blackhawk pursuant to the terms of the pooling/unitization clause of their lease) and signed and approved by the BLM (all three) and Utah School and Institutional Trust Lands Administration (as to UTU-84242). Pursuant to those agreements, all gas production from the Subject Formation is communitized (pooled) as to the respective quarter section and allocated to the leaseholds and respective parties on a pro-rata acreage basis. No formal written pooling agreement between Anadarko and UPRC with respect to the NE $\frac{1}{4}$ has been signed, but the parties have agreed to participation in the Blackhawk A-3 Well and production allocation of the gas produced therefrom from the Subject Formation.

6. The four existing wells have not optimally produced, with estimated ultimate recovery factors ranging from 7 to 26 percent of the initial gas in place reserves allocated to each well. It appears the poor performance of these wells to date is due in large part to low

permeability. As a consequence, it appears that the four existing wells are not adequately draining the existing 160-acres upon which each is located and that valuable resources will be left in place without additional action.

7. The existing wells produce in part from what Anadarko has designated in its exhibits and testimony as the “A” coals, which are within the Subject Formation, are continuous across subject Section 20 with a dip from south to north, and are thick and constitute approximately 50 percent of the net coal within the Section. The orientation of the face cleats appears to be in a northwesterly direction. As a consequence, there is a greater possibility that more cleats will be encountered by positioning horizontal laterals perpendicular or slightly oblique to such orientation and up dip, and thereby increase the recovery of gas.

8. Anadarko is proposing, on a pilot basis, the drilling of the “Blackhawk A5-H” well, a horizontal well with a proposed surface location of 1,142’ FNL and 263’ FEL in the NE¹/₄NE¹/₄ of subject Section 20, and with three laterals, the bottom hole/lateral termini of which are as follows:

<u>Lateral Designation</u>	<u>Bottom Hole/ Lateral Terminus</u>
Blackhawk A5-H ML	SW ¹ / ₄ SW ¹ / ₄ (908’ FSL and 1,158’ FWL)
Blackhawk A5-H MLL1	SW ¹ / ₄ SE ¹ / ₄ (867’ FSL and 2,056’ FEL)

Blackhawk A5-H MLR2 NW¼SW¼ (2,364' FSL and 794' FWL)

However, Anadarko has requested flexibility to extend the length of any and all of said laterals to a distance no closer than 660 feet from a sectional boundary to maximize intersection of the "A" coal face cleats and to address any complications occurred in drilling.

9. Reservoir modeling of projected future production in Section 20 with just the four existing wells and with the four wells plus the proposed horizontal well confirm substantial incremental production should occur with the horizontal well, *i.e.* the recovery factors for the "A" coal should increase to between 65 to 80 percent. The modeling confirms that additional reserves that otherwise would be left in the ground will be recovered by allowing the drilling of the horizontal well and its concurrent production with the four existing wells; and that the drilling of the horizontal well is economically feasible.

10. The modeling also reflects, however, that the production from the four existing wells will be affected by the horizontal well and therefore correlative rights under the current established drilling units will be affected.

11. A copy of the Request was mailed via certified mail, return receipt requested, addressed to their last addresses as disclosed by the appropriate Federal, State, and County realty records to all production interest owners within subject Section 20 and to the working interest owners in the NW¼ of adjacent Section 21, and was received by all. In addition, a

copy of the Request was mailed properly addressed to their last addresses to all governmental agencies having any supervisory jurisdiction over the subject Section 20.

12. Notice of the filing of the Request and of the hearing thereon was duly published in the Salt Lake Tribune, Deseret Morning News and Price Sun Advocate on February 5, 2008.

13. The vote of the Board members present in the hearing and actually voting in this Cause was unanimous in favor of granting the Request.

CONCLUSIONS OF LAW

1. Due and regular notice of the time, place and purpose of the hearing was properly given in the form and manner as required by law and the rules and regulations of the Board and Division.

2. The Board has jurisdiction over all matter covered by the Request and all interested parties therein, and has the power and authority to render the order herein set forth pursuant to Utah Code Ann. §§ 40-6-5(3)(b) and 40-6-6.

3. The drilling of the proposed horizontal well and allowing its concurrent production with the four existing wells are just and reasonable under the circumstances and will not constitute waste.

4. Because existing drilling unit boundaries will be crossed by the horizontal laterals and because production from the existing four wells will be impacted by the addition

of a horizontal well, the correlative rights of the parties in gas production from the Subject Formation in subject Section 20 will be impacted and therefore requires modification of the 241-1 and 241-4 Orders.

5. Modification of the 241-1 and 241-4 Orders only insofar as they pertain to subject Section 20 to authorize the drilling of the Blackhawk A5-H well as outlined above, and then, effective upon first production therefrom, vacating said Orders only insofar as they pertain to subject Section 20 and instead creating a special 640-acre drilling unit for the Subject Formation are just and equitable under the circumstances and afford the most protection of the affected parties' correlative rights. Such modification and partial vacation is required to allow the execution of a conforming communitization agreement to supersede the existing communitization and participation agreements under Federal and State regulations.

6. Anadarko has sustained its burden of proof, demonstrated good cause, and satisfied all legal requirements for the granting of the Request.

7. The relief granted hereby will results in the orderly development and greatest recovery of gas from the Subject Formation as to subject Section 20, prevent waste and adequately protect the correlative rights of all affected parties.

ORDER

Based upon the Request, testimony and evidence submitted, and the findings of fact and conclusions of law stated above, the Board hereby orders:

1. The Request in this Cause is granted.
2. The Board Orders entered in Cause No. 241-1 and 241-4 are hereby modified insofar and only insofar as they pertain to the entirety of Section 20 of Township 13 South, Range 10 East, SLM, to authorize the drilling of the proposed Blackhawk A-5H Well with three horizontal laterals in the manner described above, but with authorization to extend the length of any and all of the laterals to a distance no closer than 660 feet from a boundary of said Section 20, subject to the approval of the Division of a conforming application for permit to drill.
3. Effective upon first production from said Blackhawk A5-H Well, the Board's Orders in Case Nos. 241-1 and 241-4 shall be vacated insofar and only insofar as they pertain to subject Section 20 and, in lieu thereof, a special 640-acre drilling unit comprised of subject Section 20 for the production of gas (including coalbed methane) from the Ferron formation defined as follows:

the stratigraphic equivalent of the interval from 1,968 feet below the surface to 2,214 feet below the surface as shown in the density log for the Birch -1 well located in the SW¼ of Section 5, T14S, R10E, SLM

is concurrently established.

4. Upon establishment of said special drilling unit, concurrent production of the Blackhawk A5-H Well with the Helper Federal E-5, Helper Federal E-6, Blackhawk A-3 and Blackhawk A-1X Well is authorized, and all five wells are deemed to be at lawful locations notwithstanding the relief granted hereby and as the authorized wells for said special unit.

5. Pursuant to Utah Admin. Code Rule R641 and Utah Code Ann. § 63-46b-6 to 10, the Board has considered and decided this matter as a formal adjudication.

6. This Order is based exclusively on evidence of record in the adjudicative proceeding or on facts officially noted, and constitutes the signed written order stating the Board's decision and the reasons for the decision, all as required by the Administrative Procedures Act, Utah Code Ann. § 63-46b-10 and Utah Admin. Code Rule R641-109.

7. Notice re: Right to Seek Judicial Review by the Utah Supreme Court or to Request Board Reconsideration: As required by Utah Code Ann. § 63-46b-10(e) to - 10(g), the Board hereby notifies all parties in interest that they have the right to seek judicial review of this final Board Order in this formal adjudication by filing a timely appeal with the Utah Supreme Court within 30 days after the date that this Order is issued. Utah Code Ann. § 63-46b-14(3)(a) and - 16. As an alternative to seeking immediate judicial review, and not as a prerequisite to seeking judicial review, the Board also hereby notifies parties that they may elect to request that the Board reconsider this Order, which constitutes a final agency action

of the Board. Utah Code Ann. § 63-46b-13, entitled, "Agency Review - Reconsideration," states:

(1)(a) Within 20 days after the date that an order is issued for which review by the agency or by a superior agency under Section 63-46b-12 is unavailable, and if the order would otherwise constitute final agency action, any party may file a written request for reconsideration with the agency, stating the specific grounds upon which relief is requested.

(b) Unless otherwise provided by statute, the filing of the request is not a prerequisite for seeking judicial review of the order.

(2) The request for reconsideration shall be filed with the agency and one copy shall be sent by mail to each party by the person making the request.

(3)(a) The agency head, or a person designated for that purpose, shall issue a written order granting the request or denying the request.

(b) If the agency head or the person designated for that purpose does not issue an order within 20 days after the filing of the request, the request for reconsideration shall be considered to be denied.

Id. The Board also hereby notifies the parties that Utah Admin. Code Rule R641-110-100, which is part of a group of Board rules entitled, "Rehearing and Modification of Existing Orders," states:

Any person affected by a final order or decision of the Board may file a petition for rehearing. Unless otherwise provided, a petition for rehearing must be filed no later than the 10th day of the month following the date of signing of the final order or

decision for which the rehearing is sought. A copy of such petition will be served on each other party to the proceeding no later than the 15th day of the month.

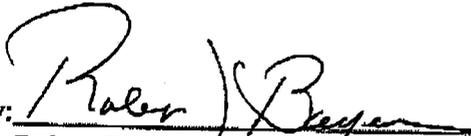
Id. See Utah Admin. Code Rule R641-110-200 for the required contents of a petition for Rehearing. If there is any conflict between the deadline in Utah Code Ann. § 63-46b-13 and the deadline in Utah Admin. Code Rule R641-110-100 for moving to rehear this matter, the Board hereby rules that the later of the two deadlines shall be available to any party moving to rehear this matter. If the Board later denies a timely petition for rehearing, the party may still seek judicial review of the Order by perfecting a timely appeal with the Utah Supreme Court within 30 days thereafter.

9. The Board retains continuing jurisdiction over all the parties and over the subject matter of this Cause, except to the extent said jurisdiction may be divested by the filing of a timely appeal to seek judicial review of this order by the Utah Supreme Court.

10. For all purposes, the Acting Chairman's signature on a faxed copy of this Order shall be deemed the equivalent of a signed original.

DATED this 12th day of MARCH, 2008.

STATE OF UTAH
BOARD OF OIL, GAS AND MINING

By: 
Robert J. Bayer, Acting Chairman

CERTIFICATE OF SERVICE

I hereby certify that I caused a true and correct copy of the foregoing "Findings of Fact, Conclusions of Law and Order" for Docket No. 2006-004, Cause No. 241-07 to be mailed, postage prepaid, on this 13th day of March, 2008, to the following:

Frederick M. MacDonald
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Assistant Attorneys General
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(Via Email)

Bureau of Land Management
Moab Field Office
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(Undeliverable)
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c/o McLendon Management Co., LLC
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SECRETARY, BOARD OF
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**BEFORE THE BOARD OF OIL, GAS, AND MINING
DEPARTMENT OF NATURAL RESOURCES
STATE OF UTAH**

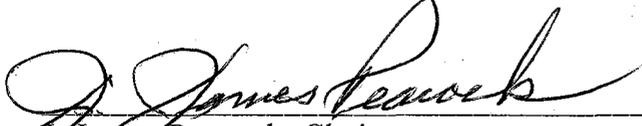
IN THE MATTER OF THE REQUEST FOR AGENCY ACTION OF ANADARKO PETROLEUM CORPORATION FOR AN ORDER AUTHORIZING THE DRILLING OF A HORIZONTAL WELL IN SECTION 20, TOWNSHIP 13 SOUTH, RANGE 10 EAST, SLM, CARBON COUNTY, UTAH.	<p style="text-align: center;">ORDER GRANTING SECOND CONTINUANCE</p> Docket No. 2006-004 Cause No. 241-07
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The Board of Oil, Gas & Mining having considered the Motion for Second Continuance of Anadarko Petroleum Corporation, Petitioner in this matter and being fully advised in the premises;

IT IS HEREBY ORDERED that the Motion for Second Continuance is granted and the above-captioned case is indefinitely continued to a hearing to be set following the filing by Petitioner of an Amended Request for Agency Action.

Dated this 26 day of April, 2006.

BOARD OF OIL, GAS & MINING



J. James Peacock, Chairman

CERTIFICATE OF SERVICE

I hereby certify that I caused a true and correct copy of the foregoing "Order Granting Second Continuance" for Docket No. 2006-004, Cause No. 241-07 to be mailed with postage prepaid, this 2nd day of May, 2006, to the following:

James A. Holtkamp
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SECRETARY, BOARD OF
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**BEFORE THE BOARD OF OIL, GAS, AND MINING
DEPARTMENT OF NATURAL RESOURCES
STATE OF UTAH**

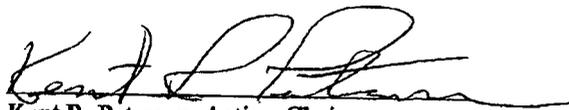
<p>IN THE MATTER OF THE REQUEST FOR AGENCY ACTION OF ANADARKO PETROLEUM CORPORATION FOR AN ORDER AUTHORIZING THE DRILLING OF A HORIZONTAL WELL IN SECTION 20, TOWNSHIP 13 SOUTH, RANGE 10 EAST, SLM, CARBON COUNTY, UTAH.</p>	<p>ORDER GRANTING CONTINUANCE</p> <p>Docket No. 2006-004</p> <p>Cause No. 241-07</p>
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The Board of Oil, Gas & Mining having considered the Motion for Continuance of Anadarko Petroleum Corporation, Petitioner in this matter, for an order continuing the hearing in this matter to the regularly scheduled hearing date on May 24, 2006, and being fully advised in the premises;

IT IS HEREBY ORDERED that the Motion for Continuance is granted and the above-captioned case continued to the regularly scheduled hearing on May 24, 2006.

DATED this 30th day of March, 2006.

STATE OF UTAH
BOARD OF OIL, GAS & MINING


Kent R. Petersen, Acting Chairman

CERTIFICATE OF SERVICE

I hereby certify that I caused a true and correct copy of the foregoing "Order Granting Continuance" for Docket No. 2006-004, Cause No. 241-07 to be mailed with postage prepaid, this 31 day of March, 2006, to the following:

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