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

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February 7, 2002

TO: Internal Files

THRU: Pamela Grubaugh-Littig, Permit Supervisor *PGL*

FROM: Peter H. Hess, Reclamation Specialist III *im for PHH*

RE: Citizen Complaint, Lodestar Energy Co., Inc., White Oak Mine, C/007/001, Performance Bond, Permit and Requirements, Compliance File

Regulatory Reference: R645-301-812.700; R645-301-840.520; UCA 40-8-14.

On January 25, 2002 at approximately 1:50 PM, a verbal citizen complaint was filed by Mr. Steve Tanner with the Division relative to the fact that the permittee operating the Whiskey Creek surface mine in Carbon County, Utah was operating without having a reclamation bond in place. The permittee is Lodestar Energy, Inc.

On January 28, 2002, at 8 AM, Mr. Tanner filed a formal written complaint at the Division's Price Field Office with Peter Hess. A copy of the complaint was immediately faxed to the Salt Lake Division headquarters. The hard copy was mailed via interoffice correspondence.

On June 5, 2000, the Division notified Lodestar Energy, Inc. that due to an unfavorable reclassification of the surety company holding the current reclamation bonds for Lodestar's Horizon and White Oak (now Whiskey Creek surface mine) coal mining operations, it was necessary for Lodestar to replace the surety bonds with bonds that are acceptable to the Federal government by July 15, 2001.

At that time, Lodestar was struggling financially. The Wexford Company filed involuntary bankruptcy for Lodestar on March 30, 2001 [Chapter 11 (not sure if this was the correct chapter filed for)] in the Federal Court of Kentucky. On April 27, 2001 (end of the 30 day waiting period) Lodestar concurred with the involuntary filing by Wexford. Since that time, Lodestar has been in the process of reorganizing. Wexford remains in control of Lodestar, having within its assets, approximately 51% of the bonds that provide the solvency of same.

INTERNAL MEMO

To add to the situation, the company providing the previous surety for the reclamation bond, Frontier Insurance Company, was declared insolvent by the Supreme Court of the State of New York on October 15, 2001. On November 13, 2001, the Associate Director of Mining for the Utah Division of Oil, Gas, and Mining notified Mr. Dave Miller, P.E., and Business Manager for the Lodestar Energy Mountain Operations (i.e., Whiskey Creek and Horizon coal mines) that Lodestar Energy, Inc. must replace the two Frontier Insurance Company bonds within 60 days of the receipt of that letter, but by no later than the close of business on January 7, 2002.

Proceedings were held in Federal Court in Lexington, Kentucky on January 3, 2002. At the present time, attorneys representing Lodestar, Wexford, and the Division are attempting to negotiate a transaction in which Wexford will post a collateral bond for the reclamation bond required by the Division. The January 3, 2002 proceedings established a three-week period in which negotiations were to be held to resolve the issues at hand. The Court session scheduled for the 24th of January was postponed until January 31, 2002. During the January 3, 2002 proceedings, the Federal court placed a restriction on the Division that would prohibit that regulatory agency from taking any enforcement action that would inhibit operations at the Whiskey Creek surface and Horizon deep mines.

In addition to Mr. Tanner's concern relative to the bond situation at Lodestar, several other concerns were aired in his complaint. These included a concern relative to the State's schedule for permit reviews and the re-evaluation of the White Oak bond amount, the methods used to protect and maintain the quality of the ground water emanating from the seeps and springs associated with the upper and lower O'Connor coal seams, and the ability to adequately treat (i.e., sizing) of the 004A sediment pond at the Mine site to treat the runoff from the increase in sediment production with the removal of the surface structures in the upper seam area. Lastly, Mr. Tanner was concerned about the stability of sediment pond 004, and the Madison (Madsen) well, which is the water well below pond 004, and is the property of Lodestar. Mr. Tanner's concerns stem from the potential adverse affect of surface blasting on these structures, in consideration of the fact that they exist in a faulted area.

A phone call was placed to Mr. Tanner on January 28, 2002 to attempt to set up a tentative date to conduct an inspection of the White Oak Mine site. Mr. Tanner indicated that **he did not intend to get into a confrontation with the permittee, and he therefore declined the opportunity to conduct a field inspection of the site with the Division.**

The aforementioned information will be forwarded to Mr. Tanner as part of the Division's response. Hopefully, the bond dilemma will have come to resolve in the interim.