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State of Utah

Department of
Environmental Quality

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March 31, 2005

Chris Hansen, Environmental Coordinator
Canyon Fuel Company, LLC
HCR 35 Box 380
Helper, Utah 84526

Dear Mr. Hansen:

Subject: Salinity-Offset Program Initial Payment Extension for UPDES
Permit Nos. UT0023540-Skyline Mines and UT0025593-Dugout Canyon
Mine

Canyon Fuel Company, LLC (CFC) Skyline and Dugout Canyon Mines are required by the above referenced UPDES Permits, to participate in and/or fund a salinity-offset program to compensate for the amount of salinity discharged from their facilities, which is above the tons/day permit limits. A plan for both mines to fund a salinity-offset program was drafted and finalized by CFC in January 2005. The plan, titled "Colorado River Salinity Offset Program Participation Plan", was approved by the Division of Water Quality (DWQ) and appended to each of the UPDES permits referenced above. One component of the plan required CFC to tender funds in the amount of \$535,818.67 to the DWQ during each of the first quarter of calendar years 2005, 2006, and 2007 as payment to fund the salinity offset program.

CFC and DWQ agreed to work together to prepare and sign a funding agreement that will allow CFC to fund a salinity-offset program and the DWQ to accept and appropriately disperse the funds. The funding agreement is to include a State controlled account into which the funds will be deposited from CFC and subsequently released to the appropriate agency for implementation of the approved salinity-offset projects. Currently, staff of the Utah Attorney General's Office is reviewing a draft of the funding agreement prepared and submitted by CFC.

The review process, and any subsequent modifications agreed to by all parties involved, will not be completed by the end of the first quarter of 2005. Thus, submittal of the first annual payment to the salinity-offset program

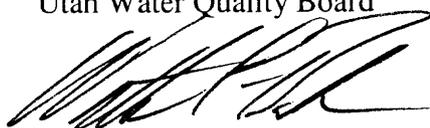
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cannot be made by CFC or accepted by the DWQ within the first quarter of 2005 as required by the plan. Since a funding agreement is not yet in place, the due date of the first annual payment will be extended by 30 days to April 30, 2005. This extension of time for payment does not change or modify any other aspect of the approved salinity offset program or the existing Skyline and Dugout Canyon Mines' UPDES permits. The DWQ expects the funding agreement and first payment from CFC to be in place by April 30, 2005.

If you have any questions, please contact Jeff Studenka of this office at (801) 538-6779, or by e-mail at jstudenka@utah.gov.

Sincerely,

Utah Water Quality Board



Walter L. Baker, P.E.
Acting Executive Secretary

WLB: JAS: mc

cc: Qian Zhang, EPA Region VIII
Claron Bjork, SE Utah District Health Department
Dave Ariotti, DEQ District Engineer
Pam Grubaugh-Littig, Division of Oil Gas & Mines
Mark Quilter, Utah Department of Agriculture and Food
Larry Anderson, UDNR
Laura Lockhart, Attorney General

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