

**UTAH DIVISION OF OIL, GAS AND MINING
STATE DECISION DOCUMENT**

Andalex Resources, Inc.
Centennial Project
Incidental Boundary Change
Mathis /Summit Lease Tract
C/007/0019
Carbon County, Utah

September 3, 2004

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ADMINISTRATIVE OVERVIEW

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PROPOSAL

Andalex Resources, Inc. (ARI) has proposed to add 92.32 acres as an incidental boundary change (Federal Lease UTU-79975 [Summit Tract] - 72.32 acres and 20 acres of the Mathis fee lease) at the Centennial Mine. The request includes longwall development mining by a continuous miner in the Aberdeen Mine in the Aberdeen (Castlegate A) seam. All of the surface is private.

Mining in this area is deep to a depth of about 2800 feet. Due to the fact that this is so deep, a joint monitoring study is being conducted by the University of Utah, the Bureau of Land Management, Agapito Associates and Andalex Resources, Inc.

BACKGROUND

The Mining and Reclamation Plan (MRP) for the Centennial Project was approved by the Office of Surface Mining in November of 1981 and by the Division of Oil, Gas and Mining (DOG M) in January of 1982. The originally approved MRP consisted of 2,240 acres of private and federal coal leases. On May 20, 1986, ARI was issued a permit by DOGM for a 120-acre federal emergency lease. On March 2, 1987, a new five-year permanent program permit was issued incorporating the emergency lease, for a total permitted acreage of 2,360 acres.

In October of 1981, Federal lease numbers U-010581, SL-063058 and SL-027304 were modified by the Bureau of Land Management to include an additional 436 acres. In October of 1987, Federal lease numbers U-010581, SL-063058 and SL-027304 were modified by the Bureau of Land Management to include additional acreages. In March of 1988, ARI requested that these three lease modifications be incorporated into the permitted area. In August of 1988, ARI also requested that one additional 320 acre federal lease (U-05067) and one 240 acre fee lease be added to the permitted area - the permit was revised to include these leases on May 4, 1989. On April 8, 1991, a permit revision was approved which incorporated Federal Lease UTU-66060 also known as the Graves Lease into the permit area. On August 11, 1997 Andalex Resources, Inc. added only the Centennial seam of the AEP lease (UTU-69600) to the permitted area.

On July 7, 1994, the Aberdeen Seam of the AEP lease was permitted to do longwall mining. ARI operated the three mines, the Pinnacle, Apex and Aberdeen, in the Gilson, Lower Sunnyside and Aberdeen seams, respectively until recently. The longwall ceased operations in the Aberdeen Mine on March 15, 2001 and was moved to the West Ridge Mine.

The approval of the 240-acres of the Mathis tract (fee land and fee coal) was approved on October 25, 2002 as an incidental boundary change for mining by continuous miners in the Aberdeen Mine.

This incidental boundary request for the addition of approximately 72.32 acres in the Summit Creek lease (UTU-79975) and approximately 20 acres in the Mathis fee lease includes longwall development mining by a continuous miner in the Aberdeen Mine in the Aberdeen (Castlegate A) seam. All of the surface ownership is private.

Mining in this area is deep to a depth of about 2800 feet. Due to the fact that this is so deep, a joint monitoring study is being conducted by the University of Utah, the Bureau of Land Management, Agapito Associates, Inc. and Andalex Resources, Inc.

Tonnage from the Summit Tract lease is expected to be about 1.5 million tons per year.

ANALYSIS

No additional surface disturbance is proposed in relation to this incidental boundary change into the Summit Tract. All mining will be done by a continuous miner as part of the longwall development for the Aberdeen Mine in the Aberdeen seam. An Environmental Assessment has been prepared which indicates that mining in the Summit Tract lease will have no significant impact to the environment or the public (BLM EA No.UT-070-2003-48, dated April 2004).

RECOMMENDATION

Andalex Resources Inc. has demonstrated that mining as part of this incidental boundary change can be done in conformance with the Surface Mining Control and Reclamation Act, and the corresponding Utah Act and performance standards. The Bureau of Land Management approved the Summit Tract federal lease and concurs with the decision to allow mining at this time, see recommendation for approval of the Resource Recovery and Protection Plan, dated August 12, 2004.

It is, therefore, recommended that approval be given for the addition of 92.32 acres of the Summit Tract (72.32 acres) and Mathis fee lease (20 acres) to the permitted area.

PERMITTING CHRONOLOGY

Andalex Resources, Inc.
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May 5, 2004	Andalex Resources, Inc. submits the incidental boundary change application for the Summit Lease Tract at the Centennial mine.
May 24, 2004	Determination by OSM that this permitting action is a mining plan modification.
June 18, 2004	Division deficiency review sent to Andalex Resources, Inc.
June 24, 2004	BLM holds lease sale for Summit Lease Tract.
June 30, 2004	BLM accepts bid from Andalex Resources, Inc.
July 2, 2004	Andalex Resources, Inc. submits additional information.
July 29, 2004	Division completes technical review of the application.
August 12, 2004	BLM recommends approval of the R2P2.
September 1, 2004	BLM issued lease for Summit Tract
September 3, 2004	Division issues permit with a condition that mining may not commence until Mining Plan Approval is received from Secretary for this permitting action.
September 3, 2004	Division forwards State Decision Document to Office of Surface Mining Reclamation and Enforcement for concurrence and Secretarial signature.

FINDINGS

Andalex Resources, Inc.
Centennial Project
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Carbon County, Utah

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1. The revised plan and the permit application are accurate and complete and all requirements of the Surface Mining Control and Reclamation Act, and the approved Utah State Program (the "Act") have been complied with (R645-300-133.100). See attached Technical Analysis dated July 27, 2004.
2. No additional surface reclamation is required since the additional permit area will be mined as an underground extension of the existing mine. There will be no new surface facilities (R645-300-133.710).
3. The assessment of the probable cumulative impacts of all anticipated coal mining and reclamation activities in the general area on the hydrologic balance has been conducted by the regulatory authority and no significant impacts were identified. The Mining and Reclamation Plan (MRP) proposed under the application has been designed to prevent damage to the hydrologic balance in the permit area and in associated off-site areas (R645-300-133.400 and UCA 40-10-11 {2}{c}) (See Cumulative Hydrologic Impact Analysis [CHIA], updated September 3, 2004).
4. The proposed lands to be included within the permit area are:
 - a. not included within an area designated unsuitable for underground coal mining operations (R645-300-133.220) ;
 - b. not within an area under study for designated lands unsuitable for underground coal mining operations (R645-300-133.210) ;
 - c. not on any lands subject to the prohibitions or limitations of 30 CFR 761.11 {a} (national parks, etc.), 761.11 {f} (public buildings, etc.) and 761.11 {g} (cemeteries);
 - d. not within 100 feet of the outside right-of-way of a public road (R645-300-133.220);
 - e. not within 300 feet of any occupied dwelling (R645-300-133-220).

5. The regulatory authority's issuance of a permit is in compliance with the National Historic Preservation Act and implementing regulations (36 CFR 800) (R645-300-133.600). See attached letters from State Historic Preservation Officer (SHPO) dated June 15, 1988 and July 7, 1994. The acreage proposed in this incidental boundary change are not located within areas where cultural resources will be found.
6. The applicant has the legal right to enter and complete mining activities through a federal coal lease issued by the Bureau of Land Management (See attached lease UTU-79975 effective September 1, 2004) (R645-300-133.300).
7. A 510(c) report has been run on the Applicant Violator System (AVS), which shows that: prior violations of applicable laws and regulations have been corrected; neither Andalex Resources Inc., or any affiliated company, are delinquent in payment of fees for the Abandoned Mine Reclamation Fund; and the applicant does not control and has not controlled mining operations with a demonstrated pattern of willful violations of the Act of such nature, duration, and with such resulting irreparable damage to the environment as to indicate an intent not to comply with the provisions of the Act (R645-300-133.730). (See attached memo dated September 3, 2004).
8. Underground mining operations to be performed under the permit will not be inconsistent with other operations anticipated to be performed in areas adjacent to the proposed permit area. The closest operating mine is the Dugout Mine.
9. The applicant has posted a surety bond for the Centennial Mines Complex in the amount of \$1,080,839.00. (Bond #SU34593 in the amount of \$381,839 and bond #SU1354086 in the amount of \$699,000 both issued by Utica Mutual Insurance (total bond amount is \$1,080, 839). No additional surety will be required, since there is no additional surface disturbance proposed (R645-300-134).
10. No lands designated as prime farmlands or alluvial valley floors occur on the permit area (R645-302-313.100) (R645-302-321.100).
11. The proposed postmining land-use of the permit area is the same as the pre-mining land use and has been approved by the regulatory authority and the surface land management agency, (See R645-301- 400)
12. The regulatory authority has made all specific approvals required by the Act, the Cooperative Agreement, and the Federal Lands Program.
13. The proposed operation will not affect the continued existence of any threatened or endangered species or result in the destruction or adverse modification of their critical habitats (R645-300-133.500). (See letter from US Fish and Wildlife Service, dated September 1, 2004).
14. All procedures for public participation required by the Act, and the approved Utah State Program have been complied with (R645-300-120). This incidental boundary change

was an amendment to the mining and reclamation plan and did not require four weeks of publication.

15. No existing structures will be used in conjunction with mining of the underground lease addition other than those constructed in compliance with the performance standards of R645-301 and R645-302 (R645-300-133.720).

Permit Supervisor

Permit Supervisor

Associate Director, Mining

Director