

TECHNICAL MEMORANDUM

Utah Coal Regulatory Program

November 25, 2009

TO: Internal File

FROM: Priscilla Burton, CPSSc, Environmental Scientist III *PWB/bj/SQS*

RE: Mid-term Review, Utah American Energy, Inc., Centennial Project, C/007/0019, Task # 3409

SUMMARY:

This response to the midterm review Task 3276 was received on October 5, 2009. The application provides updates to Appendix 1 Part 1 Ownership and Control and App. 1 Part 3 Violation information. As well as a new Attachment 1-1 to Appendix X describing the operating agreement between Oso Energy Resources Corp. and Andalex Resources, Inc.

R645-301-112.500, New information provided in Appendix X, Attachment 1-1 indicates that Oso Energy Resources Corp. is a mineral lease owner whose name and address should be included in the MRP Section 112.500.

R645-301-420, The Division of Air Quality should be notified of the temporary cessation of the Centennial mine. [Deficiency repeated from Task 3276].

R645-301-413.300, A post mining land use change to the MRP, along with the minimal reclamation required for such a land use change, followed by a bond release application for wells currently being utilized by Oso Energy is requested such that the well sites and collection pipeline utilized by Oso would be permitted by the Division's Oil & Gas program. [Deficiency repeated from Task 3276].

R645-301-244.100 and R645-301-352, The Division observed that the following developed well sites are no longer producing gas and have proven to be no value to Oso: GVH 1, 5, 5A, and 6. Well sites GVH 1 and 5 were reclaimed during the fall 2009. Well sites GVH 5A and 6 also have been plugged and venting equipment has been removed. Provide a timetable for the reclamation of GVH 5A and 6 during the next field season or an explanation for the delay.

R645-301-121.100, During a site visit on November 10, 2009, there was some discussion of the seed mix used on GVH wells 1 and 5 being a slight modification of that shown in Table 3-3.

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Please provide a listing of the modification made to Table 3-3 seed mix at these well sites. Also note that germination success may be limited on GVH sites 1 and 5 where old seed was used.

TECHNICAL ANALYSIS:

GENERAL CONTENTS

IDENTIFICATION OF INTERESTS

Regulatory Reference: 30 CFR 773.22; 30 CFR 778.13; R645-301-112

Analysis:

Andalex Resources, Inc. (entity 112234) is the Owner and Permittee of the Centennial Mine (C/007/019). Section 112 of the MRP describes Andalex Resources, Inc. as a Delaware corporation which is a wholly owned subsidiary of UtahAmerican Energy Inc. (UEI, entity 146487), which in turn is a wholly owned subsidiary of Murray Energy Corp and which is owned 100% by Murray Energy Holdings. Andalex Resources Inc. and AMCA Coal Leasing, Inc own the Centennial Mine permit area leases. Figure 1 of Appendix 1 Part 1 clarifies the ownership family tree (OFT) for the Centennial Mine. The OFT provides company addresses and federal identification numbers. This information agrees with that currently in the OSM database. [11252009] Recently provided information in Appendix X, Attachment 1-1 indicates that OSO Energy Resources Corp. is a mineral lease owner whose name and address should be included in the MRP Section 112.500.

All employer ID numbers are on Figure 1. Company officers and addresses are listed in the Sections of Appendix 1, Part 1. UEI assumed ownership of Andalex Resources, Inc. in the late summer 2006. Dave Shaver is the Resident Agent. [04042008]

App 1, Part 2 Current and Previous Coal Mining Permits lists five Utah mining companies and 14 others across the nation, with fifty-three different permits listed. [04042008]

As stated in Volume 1, Section 112.700, page 14, The U.S. Department of Labor, Mine Safety and Health Administration has issued three identification numbers relative to the Centennial Project; these are:

1. MSHA No. 42-01474 for the Pinnacle Mine,
2. MSHA No. 42-01750 for the Apex Mine, and
3. MSHA No. 42-02028 for the Aberdeen Mine.

[04192007]

Findings:

R645-301-112.500, New information provided in Appendix X, Attachment 1-1 indicates that Oso Energy Resources Corp. is a mineral lease owner whose name and address should be included in the MRP Section 112.500.

VIOLATION INFORMATION

Regulatory Reference: 30 CFR 773.15(b); 30 CFR 773.23; 30 CFR 778.14; R645-300-132; R645-301-113

Analysis:

Appendix 1 Part 3 of the MRP provides a listing of violation information that is current as of August 2009. [11252009]

Findings:

The information provided meets the requirements of the Regulations.

RIGHT OF ENTRY

Regulatory Reference: 30 CFR 778.15; R645-301-114

Analysis:

Appendix J provides lease documents. Appendix R provides surface owner consent for severed surface and mineral estates.

R645-301-114 provides a detailed description of each lease and a legal description of lease area. Section R645-301-111 describes the total lease acreage by ownership type, but Figure 1-2 illustrates the permit area and provides the most succinct itemization of the permit area by ownership as follows:

1,080.00 fee coal
1.5 private easement
5,435.88 federal coal
11.45 Bureau of Land Management (BLM) surface R.O.W.
6,528.83 TOTAL Permit Area Acres [03272008]

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According to information provided under R645-301-114, Andalex Resources, Inc., in a sublease agreement with AMCA Coal Leasing, Inc., currently holds all of the private and federal coal leases in the permit area. The acreage of each lease is described in Section R645-301-114. Appendix J of the MRP contains approvals of lease agreements that provide right of entry to the permit area shown on Figure 1-2 and Plate 4 Centennial Project Leases. [03272008]

The surface disturbed area shown on Plate 5 is located in T 13 S, R 11 E Section 18 and T 13 S, R 12 E, Section 7 on surface owned by Zion Securities Corp, the United States, administered by the Bureau of Land Management and by David Cave (Sections R645-301-111 page 1-3 and 112 and Plates 1 & 2). The 1.5 acres owned by David Cave are described in Item 14) of Section R645-301-114. Names and addresses of each surface and subsurface owner of property contiguous to the permit area is shown on Plates 2 and 3. [03272008]

The degasification wells are described in Appendix X of the MRP. The wells are located in T 12 S R 11 E Section 31 and in T 13 S, R 10 E Section 1 and in T 12 S, R 10 E Section 36 along the lengths of longwall panels#6, #7, and #8. Figure 1-1 of Appendix X indicates surface ownership of the well sites. Mineral rights (gas) are held by the surface owners and leased by OSO Energy. [04192007]

Appendix X, Attachment 1-1 contains an Operating Agreement dated February 14, 2006 between OSO Energy Resources Corp and Andalex Resources, Inc for a methane collection for the gob vent holes permitted under SMCRA. [11252009]

On October 8, 2008, the location of four well sites drilled by OSO Energy (separate from the gob vent holes) in T 12 S, R 11 E, Sec. 31 was removed from the disturbed area, as shown on Figure 1-2A.

Surface landowner agreements in Appendix X-4-2 confirm landowner notification and agreement to surface drilling of the gob vent holes.

Findings:

The Permittee has met the Right of Entry requirements of the regulations.

ENVIRONMENTAL RESOURCE INFORMATION

Regulatory Reference: Pub. L 95-87 Sections 507(b), 508(a), and 516(b); 30 CFR 783., et. al.

OPERATION PLAN

AIR POLLUTION CONTROL PLAN

Regulatory Reference: 30 CFR 784.26, 817.95; R645-301-244, -301-420.

Analysis:

Appendix 1 Part 4 contains the 1996 Air Quality Approval Order (AO) DAQE-997-96 and subsequent communication with the Utah Division of Air Quality on November 18, 2003, describing a decrease in emissions from the site.

The Gob Vent Amendment X describes watering of the access roads (see Chapter 4, page 4-3, section 424, Fugitive Dust Control Plan, reviewed as Task ID #2161). The application of water will be of sufficient frequency and quantity to maintain the surface material in a damp/moist condition unless the weather is below freezing.

The Division of Air Quality was notified in 2003 following the closure of the Apex Mine (see Appendix 1, Part 3 Air Quality Approval Order) and perhaps should be notified of the temporary cessation of the Centennial mine. The application received October 5, 2009 includes Documentation of Temporary Idle Status sent to MSHA and the BLM, but no notice has been sent to the Division of Air Quality.

Findings:

R645-301-420, The Division of Air Quality should be notified of the temporary cessation of the Centennial mine.[Repeated from Task 3276]

POSTMINING LAND USES

Regulatory Reference: 30 CFR Sec. 784.15, 784.200, 785.16, 817.133; R645-301-412, -301-413, -301-414, -302-270, -302-271, -302-272, -302-273, -302-274, -302-275.

Analysis:

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Approval for a reduction of permit area for a gas well and pipeline operated by a third party (Oso Energy) was approved October 9, 2008 (see task 3049). The area removed from the permit is illustrated on Figure 1-2A and described in Appendix Z. Oso holds four DOGM well permits in T12S R11E, Sec 31 in an area that was removed from the Centennial MRP. According to Mark Jones, Division O&G inspector, Oso has not applied for a permit for any of the methane degas wells that were drilled by the Centennial Mine. The Division is not monitoring production volumes from these sites.

Appendix X, Attachment 1-1 contains an Operating Agreement dated February 14, 2006 between Oso Energy Resources Corp and Andalex Resources, Inc for a methane collection for the gob vent holes permitted under SMCRA. Article II, para 2.3 of this Agreement recognizes that

...inasmuch as the gob gas vent wells are currently regulated by the mining program of the Division of Oil, Gas and Mining and it may be necessary in the future to take appropriate action to have the jurisdiction over such wells transferred to the oil and gas program, the Parties agree to exercise good faith in negotiating those jurisdictional issues as they arise. For the purposes of such negotiations, Andalex will be responsible for reclamation of surface impacts from the gob gas extraction system up until it wishes to discontinue mining operations. At that time it will inform Oso of its desire to cease operations and reclaim the surface impacts of mining. Oso will then have the opportunity to assume all, or a portion of, the reclamation obligations for the system or, in the alternative, release any further interest in said portion of the system and allow Andalex to accomplish the required reclamation in accordance with the applicable mining laws.

This paragraph is important for two reasons: 1) Andalex has agreed to be responsible only for the reclamation of the gob gas extraction system, not the disturbance associated with the collection pipeline and 2) It recognizes a future transfer of jurisdiction of the gob gas vent holes from the coal program to the oil and gas program.

A change of jurisdiction was requested under Task 3276 (post-mining land use change, followed by bond release), such that the well sites and pipeline utilized by OSO would be permitted by the Division's Oil & Gas program.

Findings:

R645-301-413.300, A post mining land use change to the MRP, along with the minimal reclamation required for such a land use change, followed by a bond release application for wells and pipeline currently being utilized by Oso Energy is requested such that the well sites utilized by Oso would be permitted by the Division's Oil & Gas program. **[Repeated from Task 3276]**

CONTEMPORANEOUS RECLAMATION

Regulatory Reference: 30 CFR Sec. 785.18, 817.100; R645-301-352, -301-553, -302-280, -302-281, -302-282, -302-283, -302-284.

Analysis:

We observed the following well sites to be utilized and/or impacted by Oso: GVH sites 3, 4, 7, 7A, 8, 8A, 9, 11, 12, 13. The following developed well sites are no longer producing gas and have proven to be no value to Oso: GVH 1, 5, 5A, and 6. Well sites GVH 1 and 5 were reclaimed during the fall 2009 in response to NOV 10040. During a site visit on November 10, 2009, Shane Campbell, SCAMP Construction stated that seed stored in the Centennial office for several years matching the reclamation seed mix in Table 3-3 was seeded but that an additional 5 lbs/acre of Triticale (sterile rye) was added to the reclamation seed mix. The seed tags from the seeding that were provided to the Division did not match the seed mix described in Table 3-3. The Permittee agreed to investigate whether seed tags from the seeding could be found. Success may be limited on GVH sites 1 and 5 where old seed was used. Reseeding may be required.

The following pad sites were developed, but no wells were been drilled before the mine went into cessation: GVH 12, 13, 14, 15, 16, 17. Pads 11, 12, and 13 were constructed in 2007. Well site 11 intercepts the works that were developed in panel 10 just prior to mine closure.

Table 1-2 describes the acreage of disturbance remaining after contemporaneous reclamation at each well site. Table 2-1 describes the volume of stockpiled topsoil remaining at each well site.

Findings:

R645-301-244.100 and R645-301-352, The Division observed that the following developed well sites are no longer producing gas and have proven to be no value to Oso: GVH 1, 5, 5A, and 6. Well sites GVH 1 and 5 were reclaimed during the fall 2009. Well sites GVH 5A and 6 also have been plugged and venting equipment has been removed. *Provide a timetable for the reclamation of GVH 5A and 6 during the next field season or an explanation for the delay.*

R645-301-121.100, During a site visit on November 10, 2009, there was some discussion of the seed mix used on GVH wells 1 and 5 being a modification of that shown in Table 3-3. Please provide the modified seed mix used at these well sites.

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RECOMMENDATIONS:

Post mining land use change issues need resolution prior to permit renewal.

Well sites GVH 5A and 6 have been plugged and venting equipment has been removed. These wells should receive final reclamation during the next field season.

Success may be limited on GVH sites 1 and 5 where old seed was used and reseeding may be required.