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TECHNICAL MEMORANDUM

Utah Coal Regulatory Program

#3409

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November 9, 2009

TO: Internal File

THRU: April Abate, Team Lead / En Sci II / Hydrology (AAA) 11-30-2009
James D. Smith, Permit Supervisor / En Sci III / Task Manager JS 12/01/09

FROM: Peter Hess, En Sci III / Engineering / Bond PHH/MS

RE: MIDTERM PERMIT REVIEW, Andalex Resources, Inc., Centennial Project
(Apex Mine, Pinnacle Mine, Aberdeen Mine), C/007/019, Task ID # 3409

SUMMARY:

The Permittee responded to the deficiencies aired in Task ID # 3276 on October 5, 2009.

The reclamation of two degasification wells was completed in October 2009, as the result of a Notice of Violation issued during the midterm site inspection conducted July 3, 2009. Wells GVH-1 and GVH-5 were plugged according to Federal guidelines, recontoured, roughened, seeded and mulched. Their associated access roads were also reclaimed.

The Permittee has included in the Task ID # 3409 response the notifications, which were felt to be necessary to place in temporary closure status the Aberdeen Mine, which is the deepest mine associated with the Centennial Project.

TECHNICAL ANALYSIS:

OPERATION PLAN

MINE OPENINGS

Regulatory Reference: 30 CFR Sec. 817.13, 817.14, 817.15; R645-301-513, -301-529, -301-551, -301-631, -301-748, -301-765, -301-748.

The Permittee notified the U.S. Bureau of Land Management / Utah State Office on June 11, 2008 that the secondary extraction of longwall panel #10 in the Aberdeen Mine (deepest of the three Mines at the Centennial Project) had been stopped due to high stress and ground control issues. The Permittee classified this closure as a temporary idling of this Mine and proceeded to remove all machinery and the conveyors in by #12 belt.

All electrical power into the Mine has been disconnected, and the Mine is being allowed to flood.

In accordance with the requirements of R645-301-515.300, TEMPORARY CESSATION OF OPERATIONS and the approved mining and reclamation plan, and the requirements of R645-301-515.320, the Division accepts the letter of notification to the U. S. Department of the Interior, Bureau of Land Management / Utah State Office as the required Notice of Intent notification required.

However, the requirements of R645-301-515.321 have not been addressed and the Permittee must do so. Information in the current MRP, which is relative to this section, was last incorporated in 2002.

The June 11, 2008 letter states that UEI has filed a Lease by Application for the area west of the Aberdeen Mine. The Aberdeen portals would be used to access the new reserve area in the LBA application.

The mine portals have had concrete block walls installed, and a concrete cap has been placed on the airshaft in Deadman Canyon. The concrete block walls are considered as temporary closures for the Aberdeen Mine. The portal barricades were completed by November 10, 2008.

R645-301-529-200, 210, Temporarily Inactive Mine Entries discusses the temporary methods to be implemented for barring access into underground mines by unauthorized individuals. The commitment contained in the MRP addresses this section.

The Permittee permitted and developed seventeen degasification well pads above the Aberdeen longwall panels in 2005 and 2006. Two wells (GVH-1 and GVH-5) were reclaimed in the fall of 2009. The following wells remain, and many are being used to vent their combustible gas volumes for commercial sale through OSO Energy Resources, Inc.:

- 1) GVH-3
- 2) GVH-4
- 3) GVH-5A
- 4) GVH-6
- 5) GVH- 7
- 6) GVH-7A
- 7) GVH- 8
- 8) GVH-8A
- 9) GVH-9
- 10) GVH-10 (never developed)(location is in by Panel 10 set up face)
- 11) GVH-11
- 12) GVH-11A
- 13) GVH-12 (drilled and cased) (no underground mine connection)
- 14) GVH-12A (alternate / not permitted)
- 15) GVH-13 (drilled and cased) (no underground mine connection)
- 16) GVH-13A (alternate / not permitted)
- 17) GVH-14 (drilled and cased) (no underground mine connection)
- 18) GVH-14A (alternate / not permitted)
- 19) GVH-15 (pad developed only)
- 20) GVH-15A (alternate / not permitted)
- 21) GVH-16 (pad developed only)
- 22) GVH-16A (alternate / not permitted)
- 23) GVH-17 (pad developed only)

None of the alternate holes (i.e., 11A, 12A, 13A, 14A, 15A, 16A) were ever drilled due to the termination of mining activities in Panel 10.

Wells 3, 4, 5A, 6, 7, 7A, 8, 8A, 9, and 11 continue to be openings into the underground mine works. The wellheads are valved, and the openings into the Aberdeen Mine can be closed when necessary.

All well locations are shown on FIGURE 1-1, which is included in Task ID # 3409.

Page 5-1 of the Task ID # 3409 application (the Permittee's response to the Division's midterm review) states the following; *"on February 14, 2006 the Company (Andalex Resources, Inc.) signed an operating agreement with OSO Energy Resources Corporation, wherein OSO was granted the right to tap into certain GVH wells for the purpose of commercial use of the methane gas being liberated from the holes. OSO has acquired all the necessary gas rights from the legal mineral owners associated with the properties involved. A copy of the OSO operating agreement is included as Attachment 1-1."*

Attachment 1-1 is the operating agreement between OSO Energy Resources, Inc., and Andalex Resources, Inc. for the venting and collection of methane gob gas from the Centennial Project degasification wells. The agreement became effective on February 14, 2006, upon signature by Douglas H. Smith, President of Andalex Resources, Inc., and Brad Boyce, President of OSO, Energy Resources, Inc.

Pages 2 and 3 of 13 **ARTICLE II, OBLIGATIONS OF THE PARTIES**, section 2.3 Regulatory Authority, clearly states that "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 (Andalex Resources, Inc.) 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".

The primary concern previously held by the Division was to whom the responsibility for the remaining degasification well reclamation would fall. The Task ID# 3409 application clears this concern, indicating that Andalex Resources, Inc., remains the responsible party for the reclamation of the remaining degasification wells (as they existed at the time of temporary idling) above the Centennial Project. Three pads were developed but the bores were not drilled. These are GVH-15, GVH-16 and GVH-17.

Findings:

The application is deficient.

In consideration of the requirements of;

1) R645-301-731, OPERATION PLAN, (HYDROLOGY),

In consideration of the fact that Andalex Resources, Inc., has received a status of temporary idling from the Bureau of Land Management / Salt Lake Office, and that the Mines are no longer capable of de-watering through either the Pinnacle Mine water outfall (UPDES 002) or the Aberdeen Mine water outfall (UPDES 004) the Permittee will conduct a flooding survey of both Mines to determine the potential for discharge of mine water from the mine openings and provide that information to the Division. The information must include a potential date for water to discharge from any of the Mine openings at Centennial.

When the Mine was in operation, outfall 004 discharged up to 830 gallons per minute.

2) R645-301-515.321, Activities to Continue to During Temporary Cessation

The Notice-of-Intent to the Division must include:

- a) A statement of the exact number of surface disturbance acreage;
- b) Horizontal and vertical extent of subsurface strata which have been in the permit area prior to idling;
- c) The extent and kind of accomplished reclamation;
- d) Extent of accomplished backfilling, grading, revegetation
- e) Environmental monitoring to be continued (including subsidence monitoring)
- f) Water treatment activities that will continue during temporary cessation.

2) R645-301-551, Casing and Sealing of Underground Openings

The Permittee, in accordance with the requirements of R645-301-551, will provide updates on the status of each of the degasification listed below as

part of the Annual Report for the Centennial Project facility. The wells that require updates are:

GVH-3
GVH-4
GVH-5A
GVH-6
GVH-7
GVH-7A
GVH-8
GVH-8A
GVH-9
GVH-11
GVH-12
GVH-13
GVH-14
GVH-15
GVH-16
GVH-17.

The Division needs this information to make a determination that any well which has the “final gas (has been) collected” as determined by OSO, should be monitored by the Division to ensure that reclamation of each disturbance is accomplished. See **Exhibit “B”, Aberdeen Surface Use Plan for Gathering Mine Gob Gas 2006, Page 12 of 13**, paragraph two of the OSO Energy Resources Corporation Operating Agreement.

The Division needs to know if the well pads which were developed as GVH-15, GVH-16 and GVH-17 will be drilled in the future to vent methane, or if the agency should require the Permittee to reclaim those developed well pads. The Division realizes that these three locations are still being evaluated by OSO, but the status of these sites needs to be included in the Annual evaluation report.

RECLAMATION PLAN

BONDING AND INSURANCE REQUIREMENTS

Regulatory Reference: 30 CFR Sec. 800; R645-301-800, et seq.

Analysis:

General

The Permittee reclaimed degasification wells GVH-1 and GVH-5 and their associated access roads during the fall of 2009.

The Permittee has not applied for reduction in the bond amount for Phase I for the work completed for either well.

Form of Bond

All bonds held by the Division for disturbances at the Centennial Project are either surety bonds or letters of credit.

Determination of Bond Amount

In 2006 and 2007, the Permittee bonded an amount of \$ 28,000 for each degasification well permitted for the Centennial Project.

Findings:

The amount of bond currently held by the Division is adequate to reclaim the Centennial surface facilities and degasification wells.

RECOMMENDATION:

The midterm permit review cannot receive a recommendation for approval at this time. The Permittee must provide the following to the Division:

- 1) A flooding survey to determine if and when water may discharge from the portals associated with the Centennial Project (**R645-301-731**);
- 2) A commitment to update the Division annually as to the status of the degasification wells that are to remain under the jurisdiction of the Coal Regulatory Program as far as future venting and / or future development of the three pads, which were never developed as degasification wells (**R645-301-551**).
- 3) Information which meets the requirements of **R645-301-515.321**, Activities to Continue During Temporary Cessation / Status of Reclamation Activities