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Canyon Fuel Company, LLC
Soldier/Dugout Canyon Mines
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September 26, 2002

Mr. Don Ostler, P.E. Director
Department of Environmental Quality
Division of Water Quality
288 North 1460 West
Salt Lake City, UT 84114-4870

RE: UPDES Permit UTG-040020

Dear Mr. Ostler:

Canyon Fuel Company, LLC, Dugout Canyon Mine is providing the required written notification of a failure to comply with the maximum daily tonnage for fixed dissolved solids and total iron according to UPDES Discharge Permit UTG-040020, Part II and the Utah Mining Rules R645-301-731.223. The failure occurred at Discharge No. 001A, Mine Discharge.

At Discharge Point No. 001A, the daily maximum tonnage of 15.38 tons was calculated from the samples taken during August 2002. The daily maximum tonnage allowed by our UPDES Permit is 1 ton per day. Total iron daily maximum was 5.0 mg/l for the August samples, with the maximum allowed under our UPDES Permit being 1 mg/l.

This exceedance of the Dugout Canyon Mine's UPDES Permit is due to the following circumstances:

In December 2001, rock slope development from the Rock Canyon seam into the Gilson seam commenced. The location and development direction of these slopes were selected reflecting a projected safe distance from the know old Knight Mine workings. After completion of the rock slopes, coal extraction was to begin in April 2002. As mining continued, water was noticed seeping into the mining area from the direction of the old workings.

Because of the water seepage, a second verification of the location of the old mine workings was sought by Dugout personnel. Because of additional information found by the BLM and the increased seeping, MSHA was contacted in the afternoon of July 30, 2002. MSHA inspected the area and mandated that no activities would take place in the Gilson seam until the water level in the old workings was dropped to a safe level.

Drilling began on July 31, 2002, for the first underground dewatering hole. Once the hole was completed, pumping began on August 4, 2002. Water from the old workings started being discharged, with an estimated pumping rate at between 500 and 1,500-gallons per minute. The pumping of the Gilson seam water lasted from August 4 to August 30, 2002.

Both Mike Herkimer of DWQ and Steven Demczak of UDOGM were contacted by telephone on August 2, 2002 concerning the potential discharge from the old mine workings. Mike Herkimer

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was informed during the conversation that water from the old working had been seeping out the surface coal face before the mine facilities were constructed and that the water from the seep was being monitored as required by UDOGM at point MD-1. The discharging water was sampled on August 5, 2002 and several times thereafter. Calculations from these samples are provided on the DMR.

Dugout Creek is the receiving water for the UPDES discharge. The creek had been dry for 12 proceeding weeks and does not support habitat for fish.

The discharge was put to beneficial use by wildlife and livestock. Downstream landowners in Clark Valley were notified of the mine's discharge and diverted water to fill their ditches and stock ponds.

The old workings in the Gilson seam will have to be pumped in the future from time to time to insure that collected water does not endanger the miners working inby the old workings. It is anticipated that water from the old works may be discharged at the rate of 20 to 50 gallons per minute. Dugout will strive to remain below quantity limitations for all UPDES parameters in the future.

The examination of Grassy Trail Creek, verified that the mine's discharge water did not make it past Sunnyside Junction. Therefore, to the best of our knowledge the discharged water did not reach the Price River which is approximately 13 miles from Sunnyside Junction on Highway 6. The iron was released from the discharged water upon reaching the surface. The rock in the channel immediately downstream was stained by the iron, however the staining is barely detectable today.

Dugout Canyon Mine in the future will be applying for an individual discharge permit to allow for increase pumping from the mine.

Sincerely yours,



Vicky S. Miller

cc: Mike Herkimer
Rick Olsen
Dave Spillman
Chris Hansen
Ken Payne
Steven Demczak