

INSPECTION REPORT

Partial Complete XXX Exploration
 Inspection Date: 05/09,13/2003/ Time: 8:30 AM- 12 PM
 Date of Last Inspection: 04/24/2003

Mine Name: Dugout Canyon Mine County: Carbon Permit Number: C/007/039
 Permittee and/or Operator's Name: Canyon Fuel Company, LLC.
 Business Address: P.O. Box 1029, Wellington, Utah 84542
 Company Official(s): Vicky Miller
 State Official(s): Peter Hess Federal Official(s): None
 Weather Conditions: Partly sunny; cool; 50's Fahrenheit
 Type of Mining Activity: Underground Surface Prep Plant XXX Other
 Existing Acreage: Permitted 7083.71 Disturbed 22.65 Regraded Seeded
 Status: Active

REVIEW OF PERMIT, PERFORMANCE STANDARDS & PERMIT CONDITION REQUIREMENTS

1. Substantiate the elements on this inspection by checking the appropriate performance standard.
 - a. For complete inspections provide narrative justification for any elements not fully inspected unless element is not appropriate to the site, in which case check N/A.
 - b. For partial inspections check only the elements evaluated.
2. Document any noncompliance situation by referencing the NOV issued at the appropriate performance standard listed below.
3. Reference any narratives written in conjunction with this inspection at the appropriate performance standard listed below.
4. Provide a brief status report for all pending enforcement actions, permit conditions, Division Orders, and amendments.

	EVALUATED	N/A	COMMENTS	NOV/ENF
1. PERMITS, CHANGE, TRANSFER, RENEWAL, SALE	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
2. SIGNS AND MARKERS	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
3. TOPSOIL	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
4. HYDROLOGIC BALANCE:				
a. DIVERSIONS	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
b. SEDIMENT PONDS AND IMPOUNDMENTS	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
c. OTHER SEDIMENT CONTROL MEASURES	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
d. WATER MONITORING	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
e. EFFLUENT LIMITATIONS	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
5. EXPLOSIVES	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. DISPOSAL OF EXCESS SPOIL/FILLS/BENCHES	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. COAL MINE WASTE/REFUSE PILES/IMPOUNDMENTS	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
8. NONCOAL WASTE	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. PROTECTION OF FISH, WILDLIFE AND RELATED ENVIRONMENTAL ISSUES	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
10. SLIDES AND OTHER DAMAGE	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. CONTEMPORANEOUS RECLAMATION	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12. BACKFILLING AND GRADING	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13. REVEGETATION	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14. SUBSIDENCE CONTROL	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
15. CESSATION OF OPERATIONS	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16. ROADS:				
a. CONSTRUCTION/MAINTENANCE/SURFACING	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. DRAINAGE CONTROLS	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
17. OTHER TRANSPORTATION FACILITIES	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
18. SUPPORT FACILITIES/UTILITY INSTALLATIONS	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
19. AVS CHECK (4 th Quarter- April, May, June)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
20. AIR QUALITY PERMIT	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
21. BONDING & INSURANCE	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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(Continuation Sheet)

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(COMMENTS ARE NUMBERED TO CORRESPOND WITH TOPICS LISTED ABOVE)

1. PERMITS, CHANGE, TRANSFER, RENEWAL, SALE

The State of Utah mining permit for the Dugout Canyon operation was renewed on March 3, 2003. Same will expire on March 16, 2008.

The only permit condition included in Attachment "A" was that the permittee continue to submit water-monitoring data to the Division's electronic database. This requirement has been in compliance for several years.

2. SIGNS AND MARKERS

The permittee needs to install a "Topsoil Storage" marker on the topsoil pile that was built from the material recovered at the secondary substation location (Dugout surface facilities). A sign is also needed for the subsoil material recovered from the same area. The long-term storage piles are located along the Nine Mile Canyon road at the SC3 / Dugout topsoil storage facility. Ms. Miller agreed to install the signs.

3. TOPSOIL

As noted above, the topsoil / subsoil storage piles located at the SC3/Dugout storage facility were inspected. The topsoil storage from the secondary substation needs final shaping. There were no signs of erosion detected on any of the piles. New growth is appearing on all of the piles. All retention berms are operational.

4A. HYDROLOGIC BALANCE: DIVERSIONS

As part of the spring surface maintenance program, it is the permittee's intent to flush all surface culverts during the Memorial Day holiday weekend.

There were no problems noted with any of the site's diversions during the field inspection.

4B. HYDROLOGIC BALANCE: SEDIMENT PONDS AND IMPOUNDMENTS

It is the permittee's intent to clean the mine site sediment pond during the month of June. The cleanout material will be temporarily stored at the mine in an incised area until it dries. It will then be disposed of at the waste rock site.

The permittee performed the fourth quarter 2002 annual impoundment certification of the mine site sediment pond on November 15, 2002. There were no signs of instability or other hazards noted by Mr. Dave Spillman, Manager of Technical Services. Mr. Spillman certified the inspection report on December 31, 2002. Today's field inspection of the pond did not reveal any problems.

4C. HYDROLOGIC BALANCE: OTHER SEDIMENT CONTROL MEASURES

There were no problems noted with any of the silt fences observed at the site. All berms were in operating condition.

4D. HYDROLOGIC BALANCE: WATER MONITORING

Both the left and right forks of Dugout Creek were observed to be flowing on May 9, 2003.

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Discharge monitoring reports for the sites three UPDES outfalls (outfall 004A was not permitted until 05/01/2003) were reviewed for the months of January through March of 2003. The following was noted during the review of those reports:

- 1) Outfall 003A (storage tank overflow) experienced an exceedance in the amount of iron which was discharged during the month of January. The UPDES permit limits the amount of total iron to be discharged to 1.0 mg/l; the amount discharged was 1.38 mg/l. The permittee met the reporting requirements of the permit by notifying the Utah Division of Water Quality both verbally and via a written notification of the iron exceedance within 24 hours and five days respectively upon receipt of the laboratory analysis. The written notification letter was reviewed during today's inspection.
- 2) None of the permitted outfalls discharged during February 2003.
- 3) UPDES outfall 001A (mine water discharge point to Dugout Creek) discharged during March at a rate of 8,100 GPM. There were no exceedances reported.
- 4) All reports for the three-month period had been submitted to the proper regulatory authorities in a timely manner.

The permittee has completed the requirements to upload the first quarter of 2003 water monitoring data into the EDI, with the exception of DC-1. A re-run of that sample is being conducted.

The field notes for the first quarter of 2003 water monitoring requirements were reviewed. Some sites were noted as having "no access". The permittee has adequate documentation in place to confirm that access to those sites was not possible due to poor road conditions, (snow and/or mud).

4E. HYDROLOGIC BALANCE: EFFLUENT LIMITATIONS

The permittee received a new UPDES permit for the site, effective May 1, 2003. Four outfalls have been permitted. These are:

- 1) 004A; the sediment pond discharge at the waste rock facility.
- 2) 003A; the storage tank overflow, up canyon of the Gilson well.
- 3) 002A; the mine site sediment pond discharge to Dugout Creek.
- 4) 001A; the mine water discharge to Dugout Creek.

7. COAL MINE WASTE/REFUSE PILES/IMPOUNDMENTS

The permittee was observed to be hauling coal mine waste for disposal in the permitted facility.

The original design volume at the waste rock site is nearing maximum capacity; the permittee is evaluating the need to expand the permitted site, or permit a new area.

The permittee anticipates flying the waste rock site sometime in May in order to submit "as-built" drawings for it.

To date, the installation of the perimeter fence and the hydro seeding of the area have not been completed.

9. PROTECTION OF FISH, WILDLIFE, AND RELATED ENVIRONMENTAL VALUES

The permittee informed the Division this day that an inflow of approximately thirty gallons per minute had been accumulating in the old Gilson Mine works. This water volume is once again becoming a hazard for the underground workings of the Dugout Mine. The permittee is attempting to work with the Utah Division of Water Quality to attempt to discharge this water in a similar fashion, as was done in August / September of 2002. The water that is accumulating is very high in

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total dissolved solids. The current UPDES permit limits the total amount of dissolved solids from the entire mine's outfalls to one ton per day. The permittee would not be able to meet that criteria if it was to discharge the flow through the currently permitted mine water discharge point. Thus, some sort of a special permit would be required through the Utah Division of Water Quality in order to discharge the Gilson Mine water from the Dugout workings. Mr. Dave Spillman is trying to set up a meeting with DWQ to attempt to work out the necessary details in order to discharge the water. The Division requested that it be kept informed of the situation as necessary. Mr. Gregg Galecki was informed of the situation on 05/13/2003.

14. SUBSIDENCE CONTROL

The permittee submitted a subsidence-monitoring map as part of the 2002 annual report to the Division on March 27, 2003. The map is P.E. certified by Mr. Dave Spillman, Manager of Technical Services. The permittee monitored twenty-eight subsidence-monitoring points during 2002; nine of those monitored subsidence over the 1st West longwall panel that was extracted during 2001. Settling was only observed at two of the nine points, with a maximum deflection of 0.472 feet being reported. The other seven points were reported as showing uplift.

The 2nd West panel in the Rock Canyon seam was mined from November 2001 through July of 2002. Monitoring point RC2-1 showed a deflection of -2.329 feet.

The remainder of the 2002 longwall production at the Dugout Mine came from the 3rd West panel. Approximately 27 percent of that panel was mined from September through December. Two monitoring points were established over the 3rd West panel, FRANCIS and RC3B. Subsidence deflection at these points will be submitted with the 2003 subsidence report.

16B. ROADS: DRAINAGE CONTROLS

All drainage controls relative to roads appeared to be capable of functioning as designed. As noted elsewhere in the report, it is the permittee's intent to flush the surface culverts at the site during the Memorial Day weekend.

18. SUPPORT FACILITIES/UTILITY INSTALLATIONS

Work continues on the installation of the secondary substation; Ms. Miller anticipated that the installation would be powered up in approximately one month.

20. AIR QUALITY PERMIT

The permittee's Air Quality Approval Order was issued on September 11, 2002.

As noted above, waste rock was being hauled for disposal at the approved site. A water truck was observed wetting down the access road from the Dugout Canyon highway to the disposal cell this day.

Inspector's Signature: _____ Date: May 14, 2003
Peter Hess #46

Note: This inspection report does not constitute an affidavit of compliance with the regulatory program of the Division of Oil, Gas & Mining.

cc: James Fulton, OSM
Dave Spillman, Canyon Fuel
Price Field office

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