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Canyon Fuel Company, LLC
 Dugout Canyon Mine
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Post-It Fax Note 7671		Date 2/10/04	# of Pages 2
To Pam Grubbaugh	From Peter Hess		
Co./Dept. Little	Co. PFO - DUGM		
Phone # Gregg Galecki	Phone #		
Fax #	Fax #		

February 6, 2004

Mr. Don Ostler, P.E., Director
 Division of Water Quality
 P.O. Box 144870
 Salt Lake City, 84114-4870

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RE: Upset Condition at the Canyon Fuel Company, LLC Dugout Canyon Mine UPDES Permit Number UTG040020

Dear Mr. Ostler:

Canyon Fuel Company, LLC (CFC) Dugout Canyon Mine (Dugout) is reporting to you as required by Part 3 H of the mine's UPDES permit that an upset condition has occurred related to the mine discharge from outfall point 001. As of February 4, 2004, the mine has been discharging quantities of water that have resulted in an exceedance of the permitted tons per day TDS limit. The mine is awaiting the results of laboratory analysis of the water to determine the exact volume of the exceedance. This letter contains a description of the cause of the upset condition and historical operations, proof of 24-hour noncompliance reporting, and the remedial measures the mine is implementing.

Description of Cause of Upset Condition and Historical Operations

Dugout uses longwall mining equipment to remove coal from two seams. While the mine is operating the longwall and associated continuous mining equipment, the mine consumes approximately 100 gpm of water. While mining in longwall panel RC-4B in January 2004, a sand channel was undermined and subsided. The undermining and subsiding resulted in the channel discharging water at a rate of approximately 175 gpm. At the end of January 2004, the longwall equipment was idled and is now currently being moved to a new panel. Additionally, one of the continuous miner operations has ceased as a normal part of the longwall move. The water typically consumed by the aforementioned equipment now needs to be discharged. Prior to encountering this channel and the idling of the equipment, the mine normally discharged water at a rate of approximately 70 to 100 gpm and was usually within the permitted TDS tons/day limit. However, because of the relatively high TDS concentration in the mine's normal discharge water, this new water will likely cause the mine to exceed its permitted TDS tons/day limit. The mine has attempted to store most of this newly intercepted ground water from the sand channel in a series of underground sumps and portions of recently abandoned mine workings. However, these sumps and workings are now full, the inflow rate has apparently not significantly decreased, and the mine is now forced to discharge the excess water to Dugout Creek to avoid flooding the active works and endangering the mine personnel.

Compounding the problem of the intercepted sand channel water is the other ground water in the adjacent abandoned Knight Mine workings Dugout is required to remove. The mine is required by Mining Safety and Health Administration (MSHA) to maintain a safe level of impounded water in the old workings as a safety precaution to protect personnel in the active Dugout works. These old works have been drained twice before in 2002 and 2003. However, it appears that there is a continuous ground water source that has not dissipated over time and continues to fill the old works at a rate of approximately 45 gpm. Therefore, to maintain a safe level of impounded water per MSHA requirement, this 45 gpm has been included as part of the normal mine discharge.

Proof of 24-hour Noncompliance Reporting

Mr. Dave Spillman notified Mr. Mike Herkimer and Mr. Randy Taylor of your office in person of the upset condition existing at Dugout at approximately 3:15 p.m., February 4, 2004. The upset condition issue was discussed in detail and both Mr. Herkimer and Mr. Taylor reminded Mr. Spillman of the necessity of submitting this notification.

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Mr. Don Ostler, P.E. Director
Page 2

Remedial Measures

Dugout Mine is discharging water at a rate necessary to continue operation of the mine in a safe manner. Sumps are not being allowed to overflow and flood active workings. Currently, the mine is discharging water at a rate of approximately 197 gpm. However, that rate will vary as the mine again begins to consume water as part of its normal operations and as the water volume is maintained at a safe level in the old Knight Ideal Mine.

The mine did submit an application for an individual discharge permit to the Utah Division of Water Quality in September 2003. This submittal was made in anticipation of discharging larger volumes of water that possibly would result in more than one ton per day of TDS being discharged from the mine. The mine and members of your staff have pursued numerous avenues that would allow the mine to discharge TDS at a higher daily rate. These efforts have included your staff researching the potential of "transferring" tons/day of TDS from the Canyon Fuel Company owned and idled (and not discharging) Soldier Canyon Mine to the Dugout Canyon Mine. The potential for participating in a downstream salt removal project that would remove similar volumes of TDS as would be discharged from Dugout have also been pursued. The mine has also researched and provided to your staff costs associated with on-site removal of TDS from the mine discharge water using a reverse osmosis process. On February 4, 2004, the mine learned in a meeting with you and members of your staff, representatives of the US Department of Agriculture, the US Bureau of Reclamation, the Colorado River Basin Salinity Control Forum, and the Utah Division of Water Rights there are several processes that could be implemented for purposes of removing TDS from the Colorado River system. The mine is currently evaluating the processes to determine which, if any, can be successfully implemented within current regulatory time constraints. The mine is also attempting to determine the volume of ground water the mine has intercepted that would normally report to the Dugout Creek drainage in a timely manner. The intercepted groundwater is currently being included with all other mine water discharged under the mine's UPDES permit and subject to the permits limits. If the volume is significant, and the mine believes that it is, the mine will petition the Division of Water Quality for relief from a yet-to-be determined tonnage of TDS under the Colorado River Salinity Control Forum's Intercepted Ground Water Policy.

Dugout Canyon Mine is making a significant effort to minimize the holding time that water is contained underground prior to discharge to reduce the amount of TDS ground water gains between the time it is intercepted and then discharged to Dugout Creek. However, a certain amount of residence time is required for mine water to drop its suspended load and be in compliance with the UPDES TSS discharge limits.

Dugout will notify the Division of Water Quality of the amount of TDS that is being discharged under the upset conditions as soon as the mine receives laboratory analysis results of water samples taken of the discharge. I appreciate the help your staff has given the mine in our attempts to deal with this situation. If you have any questions regarding this situation, please do not hesitate to call Chris Hansen at (435) 448-2669 or Vicky Miller at (435) 636-2869.

Sincerely,



R.W. Olsen
General Manager