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State of Utah

Department of Environmental Quality

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Executive Director

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May 31, 2005

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Copy Wayne H, Susan, Dana, Dave, Pete, Steve D, Pam (2-sided)

CERTIFIED MAIL

Gene DiClaudio, President
Canyon Fuel Company, LLC
225 North 5th Street, Suite 900
Grand Junction, CO 81501

Dear Mr. DiClaudio:

Subject: Salinity-Offset Program Funding Agreement for UPDES Permit Nos. UT0023540-Skyline Mines and UT0025593-Dugout Canyon Mine, and Request for Initial Payment

Attached please find an original copy of the fully executed Salinity-Offset Program Funding Agreement for the above referenced UPDES permits. Also attached is an invoice, for tracking purposes only, regarding the initial payment. As you are aware, the Canyon Fuel Company, LLC (CFC) Skyline and Dugout Canyon Mines are required by the above referenced UPDES Permits, to participate in and/or fund a salinity-offset program to compensate for the amount of salinity discharged from their facilities, which is above the tons/day permit limits.

A plan for both mines to fund a salinity-offset program was drafted and finalized by CFC in January 2005. The plan, titled "Colorado River Salinity Offset Program Participation Plan", which is attached as "Exhibit A" to the Salinity-Offset Program Funding Agreement, was approved by the Division of Water Quality (DWQ) and appended to each of the UPDES permits referenced above. One component of the plan required CFC to tender funds in the amount of $535,818.67 to the DWQ during each of the first quarter of calendar years 2005, 2006, and 2007 as payment to fund the salinity offset program.

As stated in previous correspondence, the review process and subsequent modifications agreed to by all parties involved, was not completed by the end of the first quarter of 2005. Therefore, submittal of the first annual payment to the salinity-offset program was extended to May 31, 2005. This extension of time for initial payment does not change or modify any other aspect of the

existing UPDES permits referenced above, or the approved salinity offset program plan, including the remaining payment schedule. With the Salinity-Offset Program Funding Agreement now finalized, the DWQ expects the first payment from CFC to be in place by June 1, 2005 or as soon as possible thereafter. The DWQ appreciates your continued efforts.

If you have any questions, please contact Jeff Studenka of this office at (801) 538-6779, or by e-mail at jstudenka@utah.gov.

Sincerely,

Utah Water Quality Board

Walter L. Baker, P.E.
Executive Secretary

WLB: JAS: mc

Enclosures

cc: Qian Zhang, EPA Region VIII
Laura Lockhart, Office of The Attorney General
Claron Bjork, SE Utah District Health Department
Dave Ariotti, DEQ District Engineer
Pam Grubaugh-Littig, Division of Oil Gas & Mines
Mark Quilter, Utah Department of Agriculture and Food
Larry Anderson, Division of Water Resources
Jack Barnett, Colorado River Basin Salinity Control Forum
Chris Hansen, Canyon Fuel Company

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FUNDING AGREEMENT
to
Colorado River Salinity Offset Program Participation Plan

THIS Funding Agreement, dated effective as of September 4, 2004 ("Effective Date"), is between the **Utah Water Quality Board, Department of Environmental Quality**, by and through the Executive Secretary of that Board ("Executive Secretary") and **Canyon Fuel Company, LLC** ("CFC").

Recitals

A. CFC is the operator of the Skyline coal mine ("Skyline Mine") and the Dugout Canyon coal mine ("Dugout Mine"), both located in Carbon County, Utah (collectively referred to as the "Mines"). The Skyline Mine holds Utah Pollutant Discharge Elimination System ("UPDES") Permit UT0023540 and the Dugout Mine holds UPDES Permit UT0025593 (collectively, "UPDES Permits"). The UPDES Permits are issued and managed by the Utah Division of Water Quality ("DWQ").

B. In conjunction with the UPDES Permit renewal process and in order to meet total dissolved solids salt loading limits ("TDS"), CFC, on behalf of the Mines, proposed participation in a salinity offset program through a plan entitled "Colorado River Salinity Offset Program Participation Plan," a copy of which is attached as Exhibit A hereto ("Offset Participation Plan"). The Offset Participation Plan requires CFC to fund an account pursuant to a funding agreement to purchase salinity credits as offsets against discharges made under the UPDES Permits.

C. This Funding Agreement is executed in furtherance of the Offset Participation Plan.

NOW, THEREFORE, for and in consideration of the covenants set forth in the Offset Participation Plan, the terms of this Funding Agreement, and other good and valuable consideration, the parties agree as follows:

1. Offset Participation Plan. The Executive Secretary, the Utah Department of Agriculture and Food ("UDAF") and the Colorado River Basin Salinity Control Forum ("CRBSCF") approve and ratify the Offset Participation Plan and acknowledge that the Plan establishes a salinity offset program under which CFC is purchasing a total of 99,650 TDS credit tons ("Credit Tons") for the monetary sum of $1,607,456.00 ("Credit Funds"). The number of Credit Tons purchased is based on CFC's current estimate of the number of Credit Tons that it will require to meet permit requirements for 15 years. CFC shall not be required to make any additional payments or incur any additional costs in order to purchase and use the 99,650 Credits even if the costs of the Offset program funded by the Offset Participation Plan increase.

2. Payment. CFC shall pay the Credit Funds in three equal installments of $535,818.67 each payable on or before May 31, 2005, April 1, 2006, and April 1, 2007. Payments of the Credit Funds shall be made either by (i) certified check payable to the Utah Division of Water Quality delivered by a generally acceptable overnight delivery service to the address shown herein, or (ii) by bank wire transfer or ACH transfer pursuant to written

instructions provided by DWQ to CFC no later than twenty (20) days prior to the due date of the payment.

3. Fund Account. DWQ shall establish an account ("Account") in the Operating Budget of the Department of Environmental Quality, within the State of Utah General Fund. Revenues and expenditures will be tracked through that Account as dedicated credits. The Credit Funds shall be dispersed from the Account by DWQ pursuant to procedures established by DWQ and consistent with any agreement between DWQ and UDAF for the purposes of funding certified Colorado salinity offset programs. CFC shall have no responsibility for the Credit Funds once the funds have been paid to DWQ pursuant to this Funding Agreement.

4. Monitoring and Reporting. CFC shall monitor and report TDS concentrations in its mine discharge waters in UPDES Discharge Monitoring Reports ("DMR"), as specified in the UPDES permits and in the Offset Participation Plan. CFC shall also calculate and report by the 28th of each month the number of TDS tons discharged by each of the Mines in the previous month in excess of their respective TDS limits. CFC will make that calculation for each of the Mines as follows:

a. CFC will estimate the total number of TDS tons released by the Mine. This number will be based on statistically appropriate methods which consider effluent outflows as measured and sampling of those outflows for TDS.

b. CFC will subtract from the number derived in (a) the TDS permit limit for the Mine.

The report submitted by CFC shall show, for each of the Mines, the calculations described in this paragraph. The report shall be made in substantially the form illustrated in Table 1 of the Offset Participation Plan.

5. Use and Reporting of Credits. CFC's initial 99,650 Credit Tons shall be decreased initially by the number of TDS tons described in paragraph 6 of this Funding Agreement, and then shall be decreased monthly by the total number of TDS tons discharged by the Mines in excess of their TDS limits, as described in paragraph 4 of this Funding Agreement. CFC will, by the 28th of each month, submit a report ("Credit Chart") with the number of Credit Tons used in the previous months, and the number that remain available for use in future months. The report shall be made in substantially the form illustrated in Table 1 of the Offset Participation Plan.

6. Credits for Period before Execution of this Agreement. Using the methods and forms described in paragraph 4 of this Funding Agreement, CFC shall calculate and report, by May 28, 2005, the number of TDS tons discharged by the Skyline Mine in the period between September 4, 2004 and April 30, 2005 and by the Dugout Mine in the period between December 1, 2004 and April 30, 2005. CFC shall also submit a Credit Chart for that period, as described in Paragraph 5 of this Funding Agreement.

7. Effect of Agreement. A CFC Mine will be in compliance with the TDS limits of its UPDES Permit if it does not exceed the discharge TDS tonnage limit in its permit or if CFC

has sufficient Credit Tons remaining to accommodate the TDS tonnage discharges in excess of the permit limits for TDS, and if CFC is current with its submission of reports and other communications required under this Agreement.

8. Colorado River Salinity Program. DWQ shall be solely responsible for use of the Credit Funds and approval of projects to apply the Credit Funds in accordance with applicable law and requirements of the Colorado River Salinity Program. CFC shall have no responsibility for or obligation to establish, participate in, monitor or make any additional payments toward any salinity programs used to create offsets under this Agreement.

9. Termination. This Funding Agreement shall terminate on September 4, 2019 or on the date that CFC has used all of the 99,650 Credit Tons funded under this Funding Agreement, whichever is earlier. In the event of remaining TDS credit tons funded under this Funding Agreement on or after September 4, 2019, the parties have previously agreed that the remaining Credit Tons shall be null and void.

10. Miscellaneous.

a. All notices or required communications under this Funding Agreement shall be in writing, and shall be addressed as follows:

If to CFC:

Canyon Fuel Company, LLC
225 North 5th Street,
Suite 900
Grand Junction, CO 81501
Telephone (970) 263-5130
Attention: President

With a copy to:

Skyline Mine
HCR 35 Box 380
Helper, Utah 84526
Telephone (435) 448-2669
Attention: Environmental Coordinator

If to DWQ:

Division of Water Quality
288 North 1460 West, PO Box 144870
Salt Lake City, UT 84114-4870
Attention: Director

Any party may change its address by notice to the other parties. Notices or other communications to DWQ or the Executive Secretary must be received at the offices of the DWQ by 5 p.m. on the date they are due.

b. This Funding Agreement may not be altered or amended, nor may any rights hereunder be waived, except by an instrument in writing executed by the party or parties to be changed with such amendment or waiver.

c. No provision of this Funding Agreement shall, nor shall it be interpreted to, amend, modify or waive any provision of the UPDES Permits. No provision of this Funding Agreement, including paragraph 10.a., shall, nor shall it be interpreted to, amend, modify or waive the right of the Executive Secretary to modify or terminate the UPDES Permits as permitted by law.

d. CFC may assign or transfer CFC's interest in and to this Funding Agreement in conjunction with approved sale or transfer of the UPDES Permits or sale or transfer of either of the Mines.

e. This Funding Agreement, together with the Offset Participation Plan, the UPDES Permits and the Account, constitutes the entire understanding among the parties with respect to the subject matter hereof. No representation, warranty, covenant, agreement, promise, inducement or statement, whether oral or written, has been made by the parties that is not set forth in this Funding Agreement.

f. This Funding Agreement may be executed in multiple counterparts, each of which shall be deemed an original but which together shall constitute one and the same instrument.

g. This Funding Agreement and all of its terms and provisions shall be governed by and interpreted according to the laws of the State of Utah. Any judicial action brought under this Agreement shall be brought in a court of appropriate jurisdiction within the State of Utah.

THE UNDERSIGNED PARTIES have executed this Funding Agreement as of the Effective Date.

Division of Water Quality
Department of Environmental Quality
State of Utah

By the Water Quality Board

By: _____
Pursuant to _____

Approved as to form and content:

_____
Office of the Utah Attorney General

Canyon Fuel Company, LLC

By _____
Its President

JOINED AND RATIFIED for the sole purposes of Paragraph 1 herein:

Utah Department of Agriculture and Food

By _____

Colorado River Basin Salinity Control Forum

By: _____

4853-1863-0656\2

Exhibit A
To Funding Agreement

Colorado River Salinity Offset Program Participation Plan

JON M. HUNTSMAN, JR.
Governor

GARY HERBERT
Lieutenant Governor

FILE COPY

State of Utah

Department of
Environmental Quality

Dianne R. Nielson, Ph.D.
Executive Director

DIVISION OF WATER QUALITY
Walter L. Baker, P.E.
Acting Director

Water Quality Board
Ray M. Child, *Chair*
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Neil K. Kochenour
Dianne R. Nielson
Jay Ivan Olsen
Joe Piccolo
Ronald C. Sims
J. Ann Wechsler
Walter L. Baker
Acting Executive Secretary

January 5, 2005

Chris Hansen, Environmental Coordinator
Canyon Fuel Company, LLC
HCR 35 Box 380
Helper, Utah 84526

Dear Mr. Hansen:

Subject: Salinity Offset Program for UPDES Permit Nos. UT0023540-Skyline Mines and UT0025593-Dugout Canyon Mine

We are in receipt of the *"Colorado River Salinity Offset Program Participation Plan,"* dated January 5, 2005 (copy attached). We appreciate your efforts to incorporate our comments and submit in a timely manner this program plan, which includes an example "Funds Tracking Chart" for tracking the salinity offset credits. We understand that this example tracking chart may be modified in the future, as requested by either party, to better facilitate our common goals of accurately accounting for the salinity offset credits during the UPDES permit cycles.

As stated in Part I.D.1.c/ of the UPDES permits referenced above, which became effective on December 1, 2004, this Salinity Offset Program plan will be appended to the respective UPDES permits and, along with all of the requirements, conditions and limitations of the existing permits, are in full force and effect.

If you have any questions, please contact Jeff Studenka of this office at (801) 538-6779 or by e-mail at jstudenka@utah.gov.

Sincerely,

Walter L. Baker, P.E.
Acting Executive Secretary
Utah Water Quality Board

FILE COPY

Calculations for Purchasing Salt Credits In Utah

The costs for purchasing salt loading credits in Utah will be done in the following manner. Payments will be placed in escrow accounts and deposited as agreed upon in permit negotiations.

DEQ will determine the total yearly discharge of salt in tons and the salinity area where the credits are needed. UDAF will obtain from NRCS the average cost per acre of treatment for the impacted area from the most recent "Mason Report". This report shows "on farm" costs only (FA, farm assistance). There are also planning and engineering costs (TA, technical assistance) associated with the irrigation conversion. This cost is set at 67% of the FA costs.

UDAF will use the published salt loading values for the appropriate area to determine the number of acres needed to obtain the desired salt reduction. The total cost of conversion (FA + TA) will be multiplied by the total acres needed to obtain conversion cost. Supplemental costs may be added such as a 20% Uncertainty Cost to insure projects can be obtained and salt is removed. If discharge waters significantly degrade irrigation quality and farmers will need to apply increased water to protect crops and soil then there will also be added a Leaching Fraction cost.

To the final cost will be added a 10% administration fee to cover contract administration and oversight. The Uncertainty Cost and Leaching Fraction Cost are subject to negotiation.

The salinity program projects are 15 year projects. The participant in this program may obtain a 15 year credit that is not transferable without reapplication.

Below is calculation for Skyline and Dugout Mines:

Skyline Mine Calculation:

Yearly Discharge = 4,745 tons / year = 13 ton / day x 365 days
Total Acreage = 889 acres = 4,745 tons / year / 5.34 tons / 1 acre
Conversion Cost = $1,043,686 = 889 acres x $1,174.00 / acre
Uncertainty Costs = ~~$124,993.00 = 20% of $624,967.00 ($624,967 + $124,993 = $749,960.00)~~
Contract Admin Cost = $104,368.00 = 10% of $1,043,686.00
Final Cost = $1,148,055.00

Dugout Mine Calculation:,
Yearly Discharge: 1,825 tons / year = 5 ton / day x 365 days
Total Acreage = 342 acres = 1,825 tons / 5.34 tons / 1 acre
Conversion Cost = $401,508 = 342 acres x $1,174
Uncertainty Cost = ~~$48,085 = 20% x $240,426~~
Contract Admin Cost = $40,150= 10% x $401,508
Total Cost = $441,658.00

(No leaching fraction was added to Dugout because it is not believed that this water would reach any irrigation system.)

Both mines without LF correction: $1,589,713.00

Colorado River Salinity Offset Program Participation Plan

DRAFT

Canyon Fuel Company, LLC
Skyline and Dugout Canyon Mines

FILE COPY

Introduction

Canyon Fuel Company, LLC (CFC) Skyline Mine and Dugout Canyon Mine currently hold Utah Pollutant Discharge Elimination System (UPDES) permits issued by the Utah Department of Environmental Quality, Division of Water Quality (DWQ). The permit number for Skyline is UT0023540 and the Permit number for Dugout isUT0025593. Skyline mine has three approved discharge points: Point 001 which is the outfall from the mine site and sediment pond, Point 002 which is the outfall from the Rail Loadout Sediment Pond, and Point 003 which is the outfall from the Waste Rock Sediment Pond. Mine water discharges from Point 001 on a daily basis while Point 002 seldom has discharge and Point 003 has not had a discharge since construction of the pond. All of the mine discharge points report to either Eccles Creek or Mud Creek, both are tributary to the Price River drainage.

Dugout Canyon Mine has four discharge locations: Point 001 is the mine discharge to the Left Fork of Dugout Creek, Point 002 is the outfall of the mine site sediment pond, Point 003 is the outfall at the mine water storage tank which discharges to the Left Fork of Dugout Creek, and Point 004 is the outfall of the waste rock sediment pond. Mine water discharge at Point 001 is nearly continuous while Points 002 and 003 only discharge periodically. The waste rock sediment pond is a large pond and is not expected to discharge except in unusual circumstances. No discharge has occurred from this point since it was permitted.

Both Skyline Mine and Dugout Mine have had difficulties recently meeting the TDS (salt) loading limits set forth in their respective UPDES permits. A meeting was requested with the appropriate DWQ staff to discuss a plan for the CFC mines to participate in a salinity offset program consistent with permit requirements. This meeting was held on September 30, 2004 at the DWQ offices. A general plan was verbally presented to the DWQ staff members in attendance with a written copy of the plan sent to DWQ shortly thereafter. Several of the suggestions made by the DWQ staff were included in this plan. A second meeting was held with the DWQ staff and a representative of the Utah Department of Agriculture and Food (UDAF) on November 17, 2004 to clarify the costs associated with the salinity offset program CFC would be participating in and how the monies would be paid. The plan presented in this document includes all of the original plan points, changes discussed in the November 17th meeting, and adjustments to the total plan cost as determined by the UDAF on December 30, 2004. This document discusses the mines' participation in a salinity offset program and includes this Introduction, Discharge History, Plan Elements, Plan Monitoring Schedule, and the Salinity Offset Program Costs and Payment Schedule.

History

Skyline Mine

Skyline Mine typically discharged only a few hundred gallons per minute of water at discharge Point 001 from the time mining operations began in 1983 and until March 1999. However, in March 1999, mining operations started intercepting large volumes of ground water that required an increase in the rate of mine water discharge. As mining progressed down dip to the west and southwest of the portals, mine water discharge increased until it reached a maximum monthly average of 9,846 gpm in March 2003. When the discharge rate increased from the mine, it became progressively more difficult to comply with the UPDES permit limit of 7.1 tons/day of TDS, even though the TDS concentration of the water discharged was typically less than 500 mg/L. The mine requested and received a modification to its UPDES permit that would allow the discharge of large volumes of high quality water so long as the TDS concentration was less than 500 mg/L. This modification was granted in April 2003. The new permit required Skyline Mine to discharge water with a "...TDS concentration to remain under 500 mg/L, as a thirty day average and as a result no tonnage limits TDS will be required. If for some reason the 30-day average concentration of TDS exceeds 500 mg/L, then the permittee cannot discharge more than 7.1 tons per day. Upon determination by the Executive Secretary that the permittee is not able to meet the 500 mg/L thirty day average and the 7.1 tons per day loading limit, the permittee is required to assess the feasibility of conducting or buying into an existing salinity offset project. This assessment shall include a compliance schedule for conducting or buying into the project." (Skyline Mine UPDES Permit UT0023540, Part D, c/.)

Between March 2003 and September 2004, the average discharge rate of water from Skyline Mine decreased to as low as 850 gpm. On or about September 4, 2004, Skyline Mine began discharging water at a flow rate and TDS concentration that caused the mine to exceed the above referenced limit of tons/day of TDS. The TDS concentrations rose to between 850 and 950 mg/L while the discharge rate averaged about 3,500 gpm. The DWQ was notified of the exceedance and the probability the water discharged from the mine would have similar quality characteristics for the foreseeable future. CFC projects the flow rates and TDS concentrations are likely to remain the same for some period of time. Accordingly, CFC has prepared this plan for Skyline to participate in a salinity offset program in compliance with the permit. As proposed, the plan, when approved, will have an effective date of September 4, 2004 and will apply retroactively to the Skyline Mine discharges.

Dugout Mine

Dugout Mine began to periodically discharge mine water shortly after longwall coal production began in 2001. The rate of discharge increased in 2002 to between 60 and 100 gpm when the mine drained the abandoned east Gilson seam workings to maintain safe working conditions for mine personnel. The steady inflow of ground water to the abandoned Gilson workings and Dugout longwall gob required continuous discharge of water at a rate that caused the mine to exceed its UPDES permit tons/day TDS limit. The DWQ was notified of the exceedance in the appropriate time frame as put forth in the permit. As a result of the steady inflow of groundwater, Dugout produces between

1.0 and 3.5 tons/day of TDS. CFC determined the mine would need to obtain an Individual permit with water quality parameter limits that were better suited to the mine discharge and receiving waters rather than continue to operate under a General discharge permit. A tentative agreement between CFC and DWQ was reached on a one ton/day limit of TDS provided the mine was able to participate in a salinity offset project. The new Individual permit for Dugout was issued on December 1, 2004. The Individual permit has similar requirements as the Skyline Mine UPDES permit for participating in a salinity offset program if the daily TDS tonnage limit is exceeded.

Plan Elements

The CFC Skyline and Dugout Mines will participate in the proposed salinity offset program to remain in compliance with their respective UPDES permits To institute the program, CFC will contribute monies through the DWQ to a fund to be established by the Colorado River Basin Salinity Control Forum for the purpose of defraying the costs of construction and operation of specific salinity offset projects within the Colorado River Basin. The funds will be dispersed to offset projects approved by both the DWQ and the Colorado River Basin Salinity Control Forum. The mines will have no control over the distribution of the funds or involvement in the offset projects.

The amount of the contribution to the proposed salinity offset program fund is based on the concept of offsetting the net discharge of TDS (salt) from the Skyline and Dugout mines (total number of tons of TDS (salt) minus the permitted TDS tons Skyline and Dugout Mines anticipate discharging on a daily basis) against a "bank" of tons of TDS (salt) determined by the cost of removal of a similar number of tons of TDS (salt) from the Colorado River system. DWQ, UDAF and Utah's Colorado River Basin Salinity Control Forum representatives have determined and agreed the cost per ton allocated to the bank will be based on the cost of removing a ton of salt from the Price River Drainage through the construction and implementation of improved irrigation and irrigation water delivery systems. CFC money will fund salinity-offset projects with a 15-year life expectancy and will be credited with the equivalent number of TDS (salt) tons assigned to the investment in the projects.

CFC will contribute sufficient funds to cover the cost of removing approximately 18 tons of TDS/day from the Colorado River system for a period not to exceed 15 years. This number of tons is based on the assumption that Skyline Mine could produce for the next 15 years an average of 20 tons of TDS/day, 12.9 tons over its permitted ton/day limit of 7.1 tons and Dugout Mine could produce approximately six tons of TDS/day, five tons over its permitted ton/day limit of one ton. CFC will offset the excess discharged TDS against credit/tons in a "bank account" of tons of TDS (salt) depleted over a period not exceeding 15years. The rate of depletion will depend upon the 30-day average daily rate of discharge of tons/day of TDS (salt) from Skyline and Dugout Mines to their receiving streams.

In addition to the anticipated approximate 13 tons/day of TDS (salt) that Skyline may produce above its permitted limit over a multi-year period, the mine will produce an additional 13 tons/day for approximately 3 to 4 months beginning in January 2005. This additional production of TDS (salt) tons/day will result from the mine removing water from the abandoned Winter Quarters Mine and flooded portions of the Skyline Mine. Removing the water from these areas is necessary to ensure safe working conditions for

mine personnel as they perform their work duties. The 13 tons/day of TDS (salt) discharged for 3 to 4 months will be included in the calculation of the salinity offset fund.

Because the two mines are owned and operated by CFC, a contribution to the salinity offset fund in an amount covering the anticipated combined discharge of salt from both mines is both efficient and desirable. This will allow the mines to "trade" tons between operations if needed but still maintain compliance.

Plan Monitoring Schedule

The effectiveness of this plan is dependant upon the close monitoring of the monthly average of daily tons of TDS discharged from Skyline Mine to Eccles and Mud Creeks and Dugout Mine to Dugout Creek. CFC will continue to monitor TDS concentrations in its mine discharge waters at the scheduled rate specified in the UPDES permits. The mines will continue to monitor the discharge water for compliance with TDS concentration limits set forth in the individual UPDES permits. The monthly average tons will be reported on each mine's UPDES Discharge Monitoring Reports (DMR) that are submitted monthly to the DWQ. CFC will also submit a form that illustrates the number of tons discharged versus the number of tons present in the salinity offset "bank account" of TDS (salt) tons. The total tons of salt remaining in the "account" will be listed as a daily total of tons remaining. Table 1, included at the end of this plan, illustrates an example of a proposed spreadsheet to be used and submitted to DWQ to monitor tons of TDS produced and the status of the funded salinity offset tons. Please note the spreadsheet tracks tons for both the CFC Skyline and the Dugout Canyon Mines. The initial number of tons in the fund "bank" is based on the assumption that Skyline and Dugout Mines combined will produce an average of 18 tons/day of TDS above their combined permitted tonnage limits for a period not to exceed 15 years.

DWQ and CFC personnel will evaluate the depletion of the tons of TDS (salt) "account" on an annual basis. In the event additional discharge ton credits are required beyond those initially funded, additional contributions to the account may be necessary. The contribution will be determined on the basis of cost data current at the time of the increase.

The amount of tons of TDS discharged to the Colorado River system by CFC is based on assumptions of the volume of water each mine will be discharging. Unforeseen circumstances may result in higher volumes of water discharged from the mining operations than were originally anticipated. The UPDES permits for both mines currently allow or will allow each operation to discharge higher than presently anticipated volumes of water that may result in increased tons of TDS discharged to their respective receiving streams. These discharges will not violate the mines' UPDES permits provided the concentration of all water quality parameters remain within the permit limits and sufficient funds are placed in the TDS (salt) "bank account" to fund the removal of the additional tons of TDS.

Salinity Offset Program Costs and Payment Schedule

The cost and payment schedule of the salinity offset program presented by the UDAF during the November 17, 2004 meeting between CFC, DWQ, and UDAF personnel and amended by UDAF on December 30, 2004 is as follows:

1. The cost of the salinity offset program as outlined herein for ton credits in the bank of 71,175 TDS tons is $1,148,055.00 for Skyline Mine and $441,658.00 for Dugout Canyon Mine or 27,375 TDS tons.

2. The draining of Mine #3 and the abandoned Winter Quarters Mine will add an additional 1,100 tons of salt over a 110 day period. The cost of the program for ton credits in the bank of 1,100 TDS tons as calculated by CFC is $17,743.

3. The total costs of the salinity offset program for ton credits in the bank of 99,650 TDS tons is $1,607,456.

4. The salinity offset program TDS tons credits will be available to CFC for a period not to exceed 15 years. Credits funded after the end of the 15-year period will be funded based on revised calculations agreed upon between CFC and UDAF.

5. CFC will deposit the funds with the DWQ for the initial 99,650 TDS tons credits pursuant to a mutually acceptable agreement between CFC and DWQ (Fund Agreement). The Fund Agreement will set forth the type and location of the account, the payment schedule into the account, the process to disperse funds from the account, the purpose of the funds and account, and will contain such standard contract terms as approved by both parties counsel. CFC will fund the account in three equal payments of $535,818.67, with each payment being due in the first quarter of 2005, 2006 and 2007.

6. The effective date of the salinity offset program implemented at Skyline Mine will be September 4, 2004 and implementation at Dugout Mine will be the date of approval of the mine's Individual UPDES permit.

TABLE 1

EXAMPLE ONLY
FUNDS TRACKING CHART

Month/Year	Daily Average Tons of TDS *Skyline Mine*	UPDES Daily Limit of Tons of TDS w/o Salinity Reduction Plan Participation *Skyline Mine*	Daily Average Tons of TDS Minus UPDES Daily Limit *Skyline Mine*	Daily Average Tons of TDS *Dugout Canyon Mine*	UPDES Daily Limit of Tons of TDS w/o Salinity Reduction Plan Participation *Dugout Canyon Mine*	Daily Average Tons of TDS Minus UPDES Daily Limit *Dugout Canyon Mine*	Total CFC Tons of TDS Produced and Subtracted from Fund on Monthly Basis	Tons Remaining in Fund (Initial 99,650 tons)	Percentage of Fund Remaining
Sep-04	17.6*	7.1	10.5	***	***	***	315	99,335	99.7%
Oct-04	20.2*	7.1	13.1	***	***	***	406	99,244	99.6%
Nov-04	18**	7.1	10.9	***	***	***	327	99,323	99.7%
Dec-04	21**	7.1	13.9	4**	1.0	3**	524	99,126	99.5%
Jan-05	23**	7.1	15.9	4**	1.0	3**	586	99,064	99.4%
Feb-05	19**	7.1	11.9	3**	1.0	2**	389	99,261	99.6%

*Actual tonnage of TDS discharged from Skyline Mine

**Hypothetical numbers used for example calculation purposes only

*** Dugout Canyon Mine UPDES Permit did not allow for participation in Salinity Reduction Program until December 2004.

STATE OF UTAH

DEPARTMENT OF ENVIRONMENTAL QUALITY

DIVISION OF WATER QUALITY

INVOICE NUMBER: 57-165

INVOICE DATE: 5/3/2005

BILL TO: Chris Hansen, Environmental Coordinator
Canyon Fuel Company, LLC
HCR 35 Box 380
Helper, Utah 84526

REMIT TO:
DIVISION OF WATER QUALITY
P.O. BOX 144870
SALT LAKE CITY, UT 84114-4870

PERMIT NO: UT0023540 & UT0025593

PAYMENT DUE DATE 6/1/2005

Qty	DESCRIPTION	PRICE	AMOUNT
1	First of three payments for participation in Salinity-Offset Programs	$535,818.67	$ 535,818.67
			$ -
			$ -
		TOTAL	$ 535,818.67

PLEASE RETURN A COPY OF INVOICE WITH PAYMENT

Pd by check 5-31-05

TELEPHONE 801-538-6146

FAX 801-538-6016

PLEASE REFERENCE INVOICE NUMBER ON CHECK