



State of Utah

Department of Natural Resources

MICHAEL R. STYLER
Executive Director

Division of Oil, Gas & Mining

JOHN R. BAZA
Division Director

JON M. HUNTSMAN, JR.
Governor

GARY R. HERBERT
Lieutenant Governor

Representatives Present During the Inspection:

| | | |
|---------|-----------------|-----------------------------|
| OGM | Pete Hess | Environmental Scientist III |
| Company | Vicky S. Miller | Environmental Specialist |

Inspection Report

| | |
|------------------|-----------------------------|
| Permit Number: | C0070039 |
| Inspection Type: | COMPLETE |
| Inspection Date: | Tuesday, October 31, 2006 |
| Start Date/Time: | 10/31/2006 8:17:00 AM |
| End Date/Time: | 10/31/2006 11:15:00 AM |
| Last Inspection: | Tuesday, September 26, 2006 |

Inspector: Pete Hess, Environmental Scientist III

Weather: Sunny, cold; 30's to 70's F.

InspectionID Report Number: 1121

Accepted by: whedberg *AK*

11/6/2006

Permittee: **CANYON FUEL COMPANY LLC**
 Operator: **CANYON FUEL COMPANY LLC**
 Site: **DUGOUT CANYON MINE**
 Address: **PO BOX 1029, WELLINGTON UT 84542**
 County: **CARBON**
 Permit Type: **PERMANENT COAL PROGRAM**
 Permit Status: **ACTIVE**

Current Acreages

| | |
|----------|------------------------|
| 9,471.00 | Total Permitted |
| 57.75 | Total Disturbed |
| | Phase I |
| | Phase II |
| | Phase III |

Mineral Ownership

- Federal
 State
 County
 Fee
 Other

Types of Operations

- Underground
 Surface
 Loadout
 Processing
 Reprocessing

Report summary and status for pending enforcement actions, permit conditions, Division Orders, and amendments:

The Permittee notified the DOGM on October 27, 2006 that the third quarter of 2006 surface and ground water monitoring information for the Dugout Canyon Mine permit area was in the web site pipeline ready for uploading into the Database. Thus, the Permittee continues to meet this Special Permit Condition which has been included as Attachment "A" of the current State permit.

There are no compliance actions pending for this permit area.

The submittal of several permitting actions is pending. This includes a six-hundred acre lease addition (in Sections 16, 17 and 21 of T 13 S, R 13 E. (480 acres are Federal; 120 acres are owned by the State of Utah / SITLA)). Other pending permitting actions are the "as-built" submittal for the Pace Canyon fan portal area, and an increase in the disturbed area acreage near the coal storage pad.

Inspector's Signature: _____

Pete Hess

Pete Hess, Environmental Scientist III

Inspector ID Number: 46

Date Wednesday, November 01, 2006

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

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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 Not Applicable.
 - b. For PARTIAL inspections check only the elements evaluated.
2. Document any noncompliance situation by reference 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 | Not Applicable | Comment | Enforcement |
|--|-------------------------------------|-------------------------------------|-------------------------------------|--------------------------|
| 1. Permits, Change, Transfer, Renewal, Sale | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input 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 type="checkbox"/> | <input type="checkbox"/> |
| 4.a Hydrologic Balance: Diversions | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| 4.b Hydrologic Balance: Sediment Ponds and Impoundments | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| 4.c Hydrologic Balance: Other Sediment Control Measures | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 4.d Hydrologic Balance: Water Monitoring | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| 4.e Hydrologic Balance: 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 type="checkbox"/> | <input checked="" 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 checked="" type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| 11. Contemporaneous Reclamation | <input checked="" type="checkbox"/> | <input 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.a Roads: Construction, Maintenance, Surfacing | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| 16.b Roads: Drainage Controls | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input 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 | <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 and Insurance | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 22. Other | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

2. Signs and Markers

During the September inspection, it was observed that at least one disturbed area perimeter marker needed to be installed adjacent to the discharge end of the UPDES outfall which has the potential to discharge ground water from the Mine to Pace Creek. To date, this outfall has never flowed. The Permittee has installed two green "T" posts adjacent to the pipe to correct this situation.

4.a Hydrologic Balance: Diversions

The Permittee has reworked the diversion identified as DD-3 on Plate 7-5 (See Chapter 7, Dugout MRP). Due to soft ground, and restricted access, this ditch is difficult to maintain. DD-3 routes coal stockpile runoff through the #1 sediment trap located opposite the administration building down dip to the mine site sediment pond. DD-3 was functioning this day.

4.b Hydrologic Balance: Sediment Ponds and Impoundments

The third quarter 2006 impoundment inspections for the mine site pond and the waste rock pond were conducted by Mr. Spillman on September 18 and 27 respectively. These inspections were also identified as the inspections for the annual inspections / P.E. certifications required under R645-301-514.311. There were no hazardous conditions identified during the Permittee's quarterly/annual inspection. Similarly, there were no compliance issues identified during today's inspection. Both ponds contain water, with the surface elevation of the contained volume in the Mine site pond approximately 18 inches below the primary spillway discharge elevation. The Mine site pond was cleaned during May 2006. P.E. certifications of the third quarter and annual permittee inspections were conducted prior to September 30, 2006. As of today's inspection, the inspection report for the Pace Canyon sediment basin (3rd quarter) had not been completed.

4.d Hydrologic Balance: Water Monitoring

All quarterly surface and ground water monitoring reports are current. Discharge monitoring reports for the site's six permitted UPDES outfalls are being submitted in a timely fashion, meeting the reporting requirements of the State permit issued by the Utah Division of Water Quality.

4.e Hydrologic Balance: Effluent Limitations

Ms. Miller notified the DOGM this day that a flow reporting from the mine water discharge point located above the Mine site disturbed area in Dugout Canyon had exceeded the effluent parameter for total iron. Upon laboratory analysis notification, the Permittee verbally report the exceedance to the Division of Water Quality meeting the 24 hour notification process required by the UPDES permit. Ms. Miller indicated that the Permittee had been instructed by DWQ to submit the written notification of the exceedance with the monthly discharge monitoring reports (due November 28, 2006).

7. Coal Mine Waste, Refuse Piles, Impoundments

Mr. Dave Spillman, P.E., and Manager of Tech Services for the Permittee conducted the Third Quarter of 2006 waste rock pile inspection for the Dugout disposal area on September 27, 2006. There were no signs of instability or other hazards, as noted during the Permittee's inspection, as well as during today's field inspection. Material placement and compaction requirements are being met. 130,000 tons of high ash coal were hauled from this area from May through August of 2006. 2" X 6" material was transported to the Savage Coal Terminal for wet processing. The reject from the processing is being returned to the Dugout site for final deposition. Mr. Spillman certified his inspection report for this site on September 29, 2006. The access to the waste rock site is currently being worked on by Nielson Construction Company. This work, which was permitted through DOGM Task ID #2577, includes changing the road gradient and surfacing the access with asphalt. As observed this day, road base was being added, and this material was being spread and compacted.

9. Protection of Fish, Wildlife and Related Environmental Issues

The SPCC plan was last updated and certified in April 2005.

10. Slides and Other Damage

A crack was observed behind the Hilfiker wall immediately adjacent to the outlet of the undisturbed bypass culvert on the SW corner of the property. It appears that the Hilfiker may have shifted toward the drainage. Ms. Miller contacted Mr. Dave Spillman relative to this concern. The DOGM recommended that, at a minimum, fill be placed into this void and compacted, such that surface flows cannot enter and create piping behind the Hilfiker.

14. Subsidence Control

The repair of the remaining subsidence cracks at degasification well G-7 is pending; weather conditions in this area have hampered the completion of that project as well as degas well drilling. To date, the review of information submitted relative to the 2005 annual subsidence report has not occurred.

16.a Roads: Construction, Maintenance, Surfacing

Please refer to comments under Section 7. Grading of the accesses to the degasification well sites has been necessary to keep them open.

18. Support Facilities, Utility Installations

The Permittee is still in the process of drilling degasification well G-9B. Rain and snow events in the drilling area have severely hampered progress due to mucky roads. The Permittee ordered a D-9 dozer from Nielson Construction this day to remove the drill rig from the mountain. At least four new degasification wells will be permitted / drilled during 2007. Ms. Miller indicated that evaluation of the proposed new disturbed areas was not possible at this time, due to already existing snow depths.

Permit Number: C0070039
Inspection Type: COMPLETE
Inspection Date: Tuesday, October 31, 2006

Inspection Continuation Sheet

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20. Air Quality Permit

The air quality approval order which currently exists was updated in October of 2005 to add necessary modifications for the Pace Canyon fan portal area. The Permittee anticipates submitting an amendment to this document to the Utah DAQ to increase the throughput for the Mine from 5 MTPY to 7 MTPY.