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State of Utah

Department of Natural Resources

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Division of Oil, Gas & Mining

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March 13, 2007

Outgoing
c/007/0045

Mr. Keith Thompson
COVOL Engineered Fuels LC
10653 S. River Front Parkway, Suite 300
South Jordan, Utah 84095
kthompson@headwaters.com

Subject: COVOL Application Outline of Dry-Coal Cleaning Facility/Requirement to Permit and Post Bond

Dear Mr. Thompson:

The Division of Oil, Gas & Mining (Division) has completed a review of the Permit Outline submitted by Covol Engineered Fuels LC (COVOL) in December 2006. In addition, we are responding to telephone requests from you and Mr. Bunderson about Covol accepting coal mine waste for processing, and not just for 'test runs' of 1000 cyds. Based on COVOL's plans to bring coal mine waste from other permitted sites, COVOL needs to firmly agree to proceed with permitting, and therefore to formally drop its appeal to the Board of Oil Gas & Mining. In addition, COVOL needs to post a bond for reclamation of the site in the amount of \$165,000.

The Division reviewed the application along with the environmental audit submitted by COVOL during discovery. The Division appreciates COVOL's efforts and believes the outline is very close to the permit requirements to which the Division previously agreed. The Division would like to ease the permitting process as much as possible and invites COVOL to discuss this matter in person, by phone, or by letter at any time.

While the permit outline is close, there are several items that still need to be addressed. The following comments correlate with the permit outline chapters:

I. Chapter 1

- 1) Permit and disturbed area map: include a table with acreages - permit area/disturbed area map.
- 2) Include map showing adjacent surface landowners.
- 3) Provide the MSHA Number.
- 4) Provide ownership and control information.

II. Chapter 2

- 1) Provide map showing different soil types.
- 2) Provide surface facilities map showing location of topsoil storage areas.
- 3) Address how topsoil will be stored and protected.
- 4) Address where any toxic or acid-forming materials that will be generated, will be placed and handled on site.

III. Chapter 3

- 1) Address any Threatened and Endangered species (wildlife or vegetation) on or adjacent to the permit area.

IV. Chapter 4

- 1) The application should include a copy of the Wellington City Agreement for reclaiming the site.
- 2) Since the land is an industrial site, the reclamation plan should be a clean-up plan of the site, i.e., removal of coal, wood, metal, non-coal waste material and where it will be disposed.
- 3) Discuss how the buildings will be left.
- 4) Provide the class III cultural survey on undisturbed area and class I cultural survey for the permit area (paper search). These reports must be in a confidential section of the application.
- 5) Provide a copy of the SPCC Plan.

V. Chapter 5

- 1) Provide a surface facility map showing all buildings (permanent structures), refuse piles, coal storage areas, non-coal waste storage areas, P.E stamped.
- 2) Engineering and Hydrology maps need P.E. certifications.
- 3) Provide hydrology map showing locations of sediment ponds, diversion ditches, silt fences etc.
- 4) All temporary and permanent coal mine waste and/or refuse and/or "by-products" pile storage areas need to be addressed. Show on map all refuse storage areas. Explain how is the material handled and disposed?

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VI. Chapter 6

N/A

VII. Chapter 7

- 1) Provide a table of water rights for the facility/water replacement plan.
- 2) Separate the disturbed area from the undisturbed area and show how water is controlled on the site. (OGM recommends a sedimentation pond to treat all drainage from the disturbed area). Show how structures are designed and for which design event.
- 3) Include the UPDES permit.
- 4) Identify all water sources on a map (seeps, springs)—quarterly water sampling program.

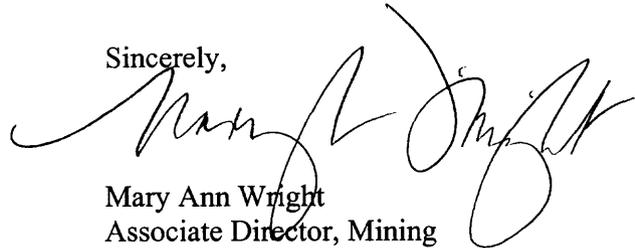
VIII. Chapter 8

- 1) Provide public liability insurance.
- 2) Provide reclamation cost estimate (if different from \$165,000) and post a bond.

Last week, I provided Trace Bunderson of your office with a reclamation cost estimate of \$165,000. This amount is based on an average cost estimate per acre from the mining program of \$5,000/acre. Immediately posting this amount as a bond, whether cash (CD, LOC, Treasury notes) or surety bond, would allow COVOL to process coal waste from existing permitted sites while COVOL completes the permitting process. Submittal of a completed mine permit application should follow within a reasonable time.

Please contact me at (801) 538-5306 to set up a meeting to review this and other permitting issues as soon as possible. Thank you for your patience and cooperation.

Sincerely,



Mary Ann Wright
Associate Director, Mining