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January 28, 2008 (finalized February 8, 2008)

COVOL Engineered Fuels, LC (COVOL-permit applicant)
10653 South River Front Parkway, Suite 300
South Jordan, Utah 84095
(801) 984-3777

Jessie OK
1/28/08/0075

COVOL Engineered Fuels, LC (Dry-Coal Cleaning Facility location)
1865 West Ridge Road
Wellington, Utah 84654
(435)613-1631

EY 2008 OSM Evaluation: Permitting Status of Coal - Waste Processing Operations
January 17, 2008

Participants:

Mike Gipson, Plant Manager
Pete Hess, Utah Division of Oil, Gas, and Mining (DOGM)
Christine Belka & Henry Austin, Office of Surface Mining (OSM)

We conducted an oversight evaluation of the COVOL dry-coal cleaning facility south of Price, UT. This evaluation is included under the "Permitting Status of Coal – Coal Waste Processing Operations" evaluation topic selected for OSM Oversight Evaluation Year (EY) 2008 in Utah.

The primary purpose of this evaluation is to document any offsite impacts, and the potential for offsite impacts from this facility. No offsite impacts were identified during the evaluation. This evaluation also documents the DOGM permitting process for this coal processing plant.

A potential for offsite impacts (uncontrolled surface water runoff from the disturbed area) was discussed briefly with Mr. Gipson during our field evaluation regarding the disturbed area perimeter diversion ditch on the south east perimeter of the facility. The diversion at this location intercepts a small depression, and the small depression is almost contiguous to an irrigation ditch. The diversion is almost inundated at this location, it was difficult to determine with frozen ground, snow, and water in the depression at this location. (This perimeter diversion diverts all the disturbed area, surface water runoff at the facility into 2 sediment ponds.) There does not appear to be a great deal of surface water runoff from the actual coal preparation, coal stockpiles, truck loading facilities, and roads draining toward this area of the diversion at this time.

We identified ourselves to Mr. Gipson and described the purpose of our oversight evaluation. I telephoned Mr. Mike Edwards and Ms. Gina Rau representing HEADWATERS, Inc. and provided notice of our oversight evaluation schedule. The officers and directors of HEADWATERS, Inc. (FEIN 87-0547337) are listed as the Board of Directors in the COVAL Engineered Fuels, LC dry-coal cleaning facility permit application submitted to DOGM on or about January 15, 2008.

This 2008 OSM Evaluation finds that this facility was constructed (beginning 2005) and has been operated since as a "Coal Processing Plant" identified under the State of Utah R645 Coal Mining Rules at R645-100-200 Definitions.

During my January 10 telephone notification to Ms. Rau, we briefly discussed the DOGM permit application logistics, and the purpose of the oversight evaluation. Ms. Rau intended to participate in the evaluation, but was unavailable due to weather related travel difficulty. Ms. Rau was very informative and helpful to me describing the dry-coal cleaning facility start-up, and briefed me on the DOGM permit application. Ms. Rau is the Environmental Manager and designated agent for this facility.

Ms. Belka and I administratively reviewed the COVOL permit application at the DOGM Price Field Office on January 15, and Mr. Hess led the inspection participants in an administrative review of the permit application during the on-site evaluation. Mr. Gipson provided a thorough operations history of the facility to date, and was very helpful with our questions and comments. The facility has been in construction and / or operating for approximately 2 years. This site has processed coal refuse from the Savage Coal Terminal, and is currently processing run of mine coal from the West Ridge Mine.

Coal processing operation permits already issued and in force to COVAL for this facility include UPDES Permit No. UT000685, Utah DEQ-Division of Air Quality Approval Order DAQE # AN2952001-03, and a Utah Industrial Development Commission, Certificate of Insurance and Business Authorization. The Price, UT, Mine Safety and Health Administration (MSHA) staff inspects this facility as a coal processing operation (telephone conversation with Mr. Ted Farmer, MSHA, on January 10, 2008).

Mr. Hess and Mr. Gipson led us on a field inspection of the fenced disturbed areas and plant facilities that include the entrance haul road, office trailer, coal and/or coal refuse stockpiles, coal handling and processing conveyors, primary crusher, sizing screens, pneumatic coal – rock processing cyclones, truck loadout facility and road loop, topsoil stockpiles (most or all of the fenced in area is on Mancos shale derived soils, with saline playas common adjacent to the fenced in disturbed areas), a surface water runoff diversion ditch that diverts surface water from the entire fenced in disturbance into two incised sedimentation ponds, equipment storage, portable and self-contained fuel storage units, and a bone yard-scrap storage area.

The site does not have any on-site coal refuse disposal pile, and a coal refuse facility is not planned for the site. We discussed coal refuse disposal options.

Coal refuse from the processing operation here is currently being hauled to the Sunnyside CoGen Power plant; and presumably either used for fuel or disposed at the Sunnyside Refuse / Slurry Operation. It appears the long term operations and profitability of this

coal processing facility will depend in large part on handling and disposal of the coal refuse being generated here.

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Generally, the site is well organized and maintained. All roads are functional and water runoff is not a problem on the roads at this time. Most areas were frozen and snow covered so it was impossible to judge durable surfacing of the roads.

Fugitive dust from the disturbed areas and coal stockpiles-handling facilities was not a problem during the evaluation. We discussed fugitive dust issues on other coal mining operations in the area with Mr. Gipson. Mr. Gipson discussed dust suppression practices here.

See discussion above for surface water runoff control and the diversion maintenance necessary. We discussed soil stockpile protection, and the required signs and markers throughout the proposed permit area and entrance road with Mr. Gipson. We also discussed the potable water line, and water wells. This concluded our evaluation of the disturbed areas.

No offsite impacts were identified during our evaluation. See above for discussion of the potential offsite impact from the surface water runoff diversion.

The DOGM permitting process for this coal processing plant will be discussed with DOGM, and documented in the OSM EY 2008 Annual Evaluation Summary Report.

Please address any questions concerning this evaluation report to Henry Austin, Senior Reclamation Specialist, at haustin@osmre.gov or to (303) 844-1400 x1466.