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## Cline Revives New Elk in Colorado



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Canadians team up with the Japanese to extract premium met reserves from a U.S. brownfield site

By Lee Buchsbaum

Sustained worldwide demand for high grade metallurgical coal has led the Canadian headquartered Cline Mining Corp. to redevelop the once highly productive but now abandoned New Elk underground mine in southern Colorado. After several years of rehabilitation and redevelopment efforts, Cline is poised to begin initial production this September. Commercial scale development is on track to commence later this year with the goal of producing at a rate of more than 3 million tons per year (tpy) by 2013. And, that's just the beginning.

The last two met coal producing mines built by the storied Colorado Fuel & Iron Co. (CF&I), the Allen and Maxwell mines are located approximately 24 miles west of Trinidad, down a long valley where coal has been extracted since the 19th Century. The Allen mine (later operated as the New Elk mine) was opened in 1951 in the Allen seam by CF&I to supply metallurgical coal to its Pueblo iron and steel production facility. However, when the steel producer switched from blast furnace to electric arc production in the early 1980s, the company sold both coal mines. The Allen mine was closed and allowed to partially flood.

Over the last few decades, subsequent operators constructed a new coal preparation plant near the East portal of the Allen mine in 1984 and also operated the Golden Eagle through 1995. Later the prep plant was used to process coal from a nearby surface mine until the early 2000s. But it and the rest of the facilities have been idle since. Rail service from a branch line built and extended by CF&I to serve the Allen and Maxwell mines ceased during this time and, though the right-of-way remains intact, the tracks have been removed.

Three years ago, with scarcity in available met coal resources accelerating simultaneous with expanding Asian demand, Japanese resource investor and coal marketer, Mitsui Matsushima International, contacted Cline Mining, a mining exploration and development company listed on the Toronto Stock Exchange (TSX), to help locate, evaluate and potentially develop additional met reserves. After working to develop several greenfield reserves in British Columbia, Cline decided instead to rehabilitate the now brownfield former CF&I mines and redevelop their idled reserves.

Over the last two years, with backing from Pinetree Capital Ltd., PowerOne Capital Markets Ltd., Macquarie Capital Advisors, Mitsui Matsushima International and other investors, and through extensive studies conducted by Behre Dolbear & Co., Ltd. and Agapito Associates, Inc, Cline has verified the existence of a 315 million ton high-grade resource base to mine from for decades to come and has raised approximately \$52 million for the purpose of bringing the mine back into production.

Once the company decided to move forward with the rehabilitation project, they dewatered the Allen mine, initiated ventilation and rebuilt the access and main portals of the New Elk mine, using contract services of TK Mining Services, located in Weston, Colo. Also working as contractors to New Elk Coal Co. (NECC), starting in July 2010, Taggart Global began rebuilding the existing coal preparation and handling facilities. The mine is on track to begin producing coal in the fourth quarter of 2010.

Next year, the mine's first full year of production, Cline plans on producing 1.3 million tons of met coal from the rebuilt New Elk mine. As additional units and equipment come online, they will double that production to 2.6 million tons the following year while ramping up to 3 million tons by 2013. "We're well into putting the mine into production by the fourth quarter of 2010 and we'll go to 3 million tons a year as quickly and safely as we are able," said Ken Bates, president, CEO and director, New Elk Coal Co. and Cline Mining. With direct rail access to the mine restored by late 2011 or early 2012, if market conditions call for it, Cline could even double production to 6 million tons a year beyond 2013.

With the support of the local community and the Colorado State Division of Wildlife, which holds the lease to much of its coal, Cline's NECC is poised to create hundreds of high paying jobs, reinvigorate the regional economy, and generate millions of dollars in revenue to the state while competing for worldwide market share with established Central, Southern Appalachian and Canadian producers of premium grade met product.

### Relative Scarcity Opens New Coalfields

Permitting a new mine anywhere in the U.S. is more difficult today. Even though it contains some of the

best remaining coking coal in the world, mining in Central Appalachia is becoming increasingly more challenging. Amid more difficult mining conditions, increasingly Byzantine federal and state permitting issues and a regional litigious anti-coal agenda, bringing more production online throughout Appalachia is becoming arduous, expensive and more time-consuming.

Beyond Appalachia, options for additional commercial grade extractable met reserves are few: western Arkansas, central Utah, and the largely abandoned coalfields of Colorado. Exploration and development activities have picked up throughout these regions. But the fact remains that coking coal prices are reflective of the relative scarcity of the product. Putting additional pressures on the marketplace, key acquisitions by global steel producers have taken many traditional U.S. met producers offline.

Considering the abundance of thermal coal, high quality met could be viewed as a finite resource. "Our reserves have a proven history. We are now in the middle of conducting a widespread drilling and testing program to reassure everyone that the remaining coal is of the same quality as it was in the past. We are in the midst of doing additional drilling for areas that we are going to be mining over the next 20 years," said Dennis Mraz, COO, Cline Mining.

#### **An Idled Asset Brought Back to Life**

In total, Cline plans on bringing the mine back into full production at a cost of roughly \$65 million. "If we were to do that today with a greenfield mine like those we are developing in Canada, it would cost us between \$300 to 400 million and take three to four years. And that's without the EPA and other legal challenges," said Bates.

"What we found in Colorado was a very advanced mine project, especially compared to our other options in Canada. We realized it could be brought into operation once again relatively quickly and inexpensively compared to the greenfield alternative," said Bates.

Over the decades, despite its rugged location, the mine "had survived very, very well," said Bates. Throughout its abandonment, it was technically still permitted even though it had been sealed. Above ground the surface facilities were largely intact though in need of repair. The mine assets include a coal preparation plant, coal silos, buildings, surface real estate, coal conveyor systems, an electricity substation, underground workings with mine portal access from the plant site, mine permit, and a permitted coal refuse disposal site. Surface infrastructure includes a 550 tph coal wash plant that is now being upgraded to 650 tph, twin 10,000 ton coal silos, a rail load-out facility, a coal conveying, handling and stacking system, and a coal waste dump with working conveyance equipment.

Once the seals were breached and proper ventilation was established by installing two main fans, work concentrated on restoration of the two access slopes and upgrading surface facilities to contemporary standards.

On June 21, 2010, Cline announced that miners working under contract to the company had completed the installation of underground roof supports and conducted clean-up of roof falls in the access slopes that had been constructed down to the Allen seam, which is the lowest coal face at New Elk. The existing slopes and shafts constructed for the Allen mine will be used for access to the New Elk mine as it intersects all three mineable coal seams, the Maxwell, Apache and Allen, in the deposit. Currently, workers are preparing the access slopes for the development phase that includes the installation of coal conveying and hoisting systems.

#### **The Rehabilitation Process**

Early on in the rehab process, Cline brought on-board Ron Thompson who has experienced mining in southern Colorado and in New Elk's reserve intimately. Beginning two decades ago, in 1990, Thompson worked for the former operators of the Golden Eagle/New Elk mines as section foreman, mining engineer, and preparation plant manager. He has worked with NECC since they became interested in this reserve in 2007.

Once Cline decided to go forward with New Elk's rehabilitation, it commenced de-watering activities and installed fans and ventilation. It went in cautiously, receiving permission every step of the way for each step forward. "It's an evaluative process. It's very difficult to have preconceived ideas because even though you make lots of assumptions, not until you get underground can you actually decide what's the best way to proceed," said Mraz.

Initially one of the proposed ideas was to rehab the existing old mine workings and use them to access the Allen seam face. However, "that would have meant that we would have to lay down roughly 10,000 feet of conveyor belts and assorted infrastructure underground as well as some costly rehabilitation work. But as it turns out we have the Apache seam that is essentially virgin and is accessible from the slope, as is the Maxwell which is another 60 feet above," said Mraz.

After evaluating its options to either develop the Maxwell or Apache or rehab the Allen, NECC and its engineering partners at Agapito decided the best route was to actually target the Apache seam. "Where we hit it in the slopes, the Apache is in excess of 5 ft. That's a very good mining thickness. While we could develop in the Maxwell, initially we would have a thinner seam, only around 3 ft," said Mraz. Economically the Apache is too good to pass up with current market conditions.

New Elk will be developing in the Apache seam throughout September after they establish the ventilation circuit in the main slope. "We are currently installing some ventilation tubing that has to be laid down before we start developing toward the ventilation shaft. This should be completed by the end of August. We are also doing additional work in one of the slopes to make it a little larger in size," said Mraz.

Mining height is expected to range from 4 ft to possibly greater than 9 ft. "This is a large reserve and conditions are expected to change as development continues across the reserve. All equipment necessary to establish operations is on order including continuous miners and other section equipment, conveyor components and additional surface facilities," said Thompson.

The schedule calls for in-seam development to begin in September prior to the plant's rebuild, which is being performed by Taggart Global. In the interim, New Elk will store the raw coal on the ground locally. The prep plant is "scheduled for mechanical completion by mid-November. This will be followed by a commissioning period during which we can already start limited test processing. With full processing to commence in December," said Bates. Initially, however, the plant's yield will be substantially lower than normal because in these first stages the CM units will have to mine some additional rock while they develop toward the shaft to provide sufficient cross section ventilation.

As of press time, the New Elk coal mine has received all of the required environmental permits from the State of Colorado for current mine operations. These include the Coal Mine Reclamation Permit issued by the Colorado Division of Reclamation, Mining and Safety and Air Emissions Permits and Water Quality Discharge Permits issued by Colorado Department of Public Health and Environment. The U.S. Mine Safety and Health Administration (MSHA) has already approved the roof control, ventilation and dust control, mine rescue compliance, emergency mine evacuation and an emergency response plan for the New Elk coal mine. The mine is currently operating under these approved plans and will file adjustments and amendments as necessary.

#### **Trucks to Trains: Rebuilding the Rail Connection**

With the railroad tracks removed, initially New Elk will truck its coal to a load-out near the BNSF main in Trinidad. To achieve any efficiencies of scale, as they ramp up their operations beyond 2 million tpy, the mine will have to re-establish a rail connection at the mine. For that reason, New Elk has already begun discussions with the various stakeholders and permitting agencies about rebuilding the former CF&I branch line, installing ties and rails and restoring service.

But with planned production in 2010 of 1.2 million clean tons ramping up to 2.6 million tons the following year, New Elk's management believes they can continue trucking while preparing the railroad line for service. In mid-July the company announced it had received the necessary permits from the Colorado Department of Transportation (CDOT) to truck up to 3 million tons of coal from the mine to New Elk's rail load out at the Jansen rail yard Trinidad. "We have just awarded the contract for the load out that will be capable of handling any tonnage we can produce. But it is our intention to reinstall the rail as quickly as possibly," said Mraz.

After 12 to 18 months, New Elk plans on converting over to rail haulage. "As soon as the rail line is completed, we will switch to unit trains loaded at the mine. But the lack of rail is not going to stop us or slow us down. We already have bids in place and contractors selected for transporting coal along the highway. When the rail is installed, we'll simply close down the load out and commence loading at the mine," said Bates.

Accessing the BNSF at Trinidad gives New Elk a major transportation advantage. Long a railroad town, Trinidad is a junction point for several of BNSF's main lines in all directions. From Trinidad, they will have access to lines heading directly southeast to Texas and the Gulf, northeast to Chicago and the Great Lakes, and northwest to Vancouver and Westshore Terminals. From there, New Elk's coal can be sold into various Asian markets.

"Over the years, we've gained great experience in mining and marketing coal into Asia from various Canadian projects. While we're focused on Asian markets, in particular, with our partner Mitsui Matsumi, we are particularly interested in the Japanese marketplace. However, by accessing the national rail network, we can ship coal to Europe from the East Coast. A shorter haul would be to the Gulf and Brazilian markets. We're very flexible in that respect but there is a sustained demand from those areas," said Bates.

#### **Obtaining a Social License to Operate**

While certainly there are those opposed to any type of development, for the most part the citizens in the Trinidad area have been very welcoming to New Elk and the return of the coal industry to the region. "It's a very well established and historical coal mining center. With the loss of virtually all those coal mining jobs this decade, they're very keen on us coming in. We have and continue to create a lot of new employment opportunities for the community. And we'll be bringing a lot more," said Bates.

"When we meet with the mayor of Trinidad, city council members and county commissioners, they always ask us how quickly we can begin production, how quickly we can bring jobs to the area, and what they can do to help," said Bates. In addition to the support Cline is receiving locally, the coal company is beginning to partner with local schools and institutions to establish a miner training program.

The State of Colorado and other lease holders also stand to benefit from Cline's production. In particular, the State Division of Wildlife holds the lease on roughly 67% of New Elk's 315 million ton reserve base. "They should make a lot of money with us. Their royalty rates are something like 9%," said Mraz.

Cline Mining freely admits its forte is exploration and developing reserves, not necessarily bringing mines to production. The New Elk mine, however, marks a different corporate strategy going forward. Instead of looking to develop and sell the property, Bates is excited about moving in the other direction. "We're aiming to go further with New Elk by doubling its production over time to 6 million tpy. Over the next few years, we're looking to develop other properties in Colorado, Canada and elsewhere. We want to reach what we call a critical mass for a small coal mining company of at least 10 million tpy. That's our objective and we'll be moving to that goal as quickly as we can," said Bates. Successfully rehabilitating the New Elk mine and bringing production to those high levels will get them at least 60% of the way there.

Buchsbaum is a Denver-based freelance writer and photographer specializing in industrial subjects. He can be reached through his Web site at [www.lmbphotography.com](http://www.lmbphotography.com) or by phone at 303-746-8172.

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