

May 9, 2000

Colleen Delaney, Co-Chair, WRAP Market Trading Forum  
Utah Dept. of Environmental Quality  
150 North 1950 West  
Salt Lake City, UT 84116

Ira Domsy, Co-Chair, WRAP Market Trading Forum  
Arizona Dept. of Environmental Quality  
3003 North Central Avenue  
Phoenix, AZ 85012

Re: Description of Temporary Suspension Status for the Phelps Dodge Corporation's  
Hidalgo Smelter

Dear Co-Chairs:

Phelps Dodge Hidalgo, Inc. (Hidalgo), a subsidiary of Phelps Dodge Corporation, owns and operates a primary copper smelter located in Playas, New Mexico. The facility consists of copper concentrate processing operations, sulfuric acid production operations, and supporting power generation facilities. Operation began in 1976, and continued in operation through September 1999 with miscellaneous interruptions for general repairs and periodic rebuilds of the flash smelting furnace.

Due to an extended period of low copper prices, numerous higher cost concentrate-producing sulfide mines were shutdown in 1998 and 1999. The loss of production capacity at these mines has had a ripple effect in the down-line processing facilities. As a direct result of concentrate shortages and low copper prices, two primary smelters in the Southwestern United States (Asarco El Paso, BHP San Manuel) were forced to close. On September 3, 1999, operations at the Hidalgo were temporarily suspended as well.

This production curtailment is temporary. Phelps Dodge has expended, and continues to expend, considerable time, effort, and financial resources to maintain the facility in a cold stand-by mode. To ensure the plant's state of readiness, Hidalgo has done the following during this temporary period:

- (1) Maintained a staff of at least 40 full-time employees on site.
- (2) Completed the submittal of all required periodic reports to the New Mexico Environment Department and the EPA.
- (3) Continued periodic testing of the following units: Turbine-generator units, package boilers and related auxiliary systems, Emergency diesels (EMD's), oxygen plant and all water systems.

- (4) Cleaned all systems to protect the equipment from deterioration due to corrosion, conditioned the oil in major pieces of oil filled equipment and routinely test the oil at an expense of \$1,228,000.
- (5) Performed ongoing and routine maintenance of buildings and facilities with a staff of 21 mechanical and supervisory personnel. This included \$83,928 for repair of fire protection systems in 1999/2000.
- (6) Performed quarterly tests of the natural gas line feeding the plant to insure its integrity.
- (7) Completed construction and testing of three replacement heat exchangers for the Lurgi acid plant in 1999/2000, at a cost of \$2,756,893.
- (8) Maintain Lurgi and Chemico acid plants in wet mothball state requiring 3 men at a cost of \$ 23,263 per month.
- (9) Repaired split in Lurgi intermediate tower at a cost of \$ 30,000.
- (10) Maintained the sulfur dioxide CEM's by removing them from service to protect them for future use.
- (11) Maintained an active status with the New Mexico air emissions inventory system, paying \$69,310.50 in fees in 1999, and \$55,644.50 in fees in 2000.
- (12) In March 2000, completed a modification (59M-2) of the Part 72 air permit for the smelter, permitting construction of sulfur-burning equipment to allow for supplemental or stand-alone production of sulfuric acid.
- (13) Continued communication with the New Mexico Air Quality Bureau regarding the issuance of the Part 70 Operating Permit; the latest update was submitted on March 28, 2000.
- (14) Completed a 6-months long rebuild and start-up plan for the smelter under various copper price scenarios.
- (15) Carried a policy to cover boilers and equipment with the Travelers Property Casualty insurance company.
- (16) Provided ongoing training for plant personnel: Power Plant Operators training (including \$75,000.00 for completion of a standardized procedures manual), Acid Plant Operations training.
- (17) Provided 48 hour First Responder for 14 employees to strengthen our Emergency Response Team capabilities. Will train team in an 80 hour structural firefighter course and a 24 hour high angle rope rescue tech I course in 2000.

In summary, operations at Phelps Dodge Hidalgo, Inc. were temporarily suspended due to unexpectedly high operating costs combined with a depressed copper market. As described above, PDHI has expended considerable resources to ensure that the smelter remains in a state of readiness. At such time that copper prices justify ending the suspension, Phelps Dodge will resume smelter operations.

Sincerely,

Tommy Townsend  
Site General Supervisor

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