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State of Utah

DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL, GAS AND MINING

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October 20, 1997

TO: File

THRU: Daron Haddock, Permit Supervisor *DORH*

FROM: Wayne H. Western, Reclamation Specialist *W+H+W*

RE: Revised Bond Calculations, Canyon Fuel Company, LLC, Skyline Mine, ACT/007/005-97I, File #2, Carbon County, Utah

Introduction:

On September 4, 1997, the Permittee finalized their bond cost estimates for the Skyline Mine and submitted the estimates to the Division. The Division compared their reclamation cost estimates with the Permittee's reclamation cost estimate. The total cost for each calculation was identical. The major difference was the contingency cost.

RECLAMATION PLAN

RECLAMATION ENGINEERING PLAN

Determination Of Bond Amount

Analysis:

On September 4, 1997, the Permittee finalized their reclamation cost estimate for the Skyline Mine. The Permittee's reclamation cost estimate in 2001 dollars is \$5,076,000.00. In September 1997 the Division determined the reclamation cost for the Skyline Mine was \$5,076,000.

The Permittee's direct cost estimate was \$3,293,892.08 while the Division's direct cost estimate was \$3,214,953. The Division's direct reclamation cost estimate is lower than the Permittee's direct estimate. Both the Division and the Permittee used the same percentage of the direct cost to calculate the maintenance and monitoring costs, the engineering redesign costs, mobilization costs, and contract management costs. The main area of disagreement between the Division's estimate and the Permittee's estimate was the

contingency factor.

The Permittee has a 15% contingency for anticipated additional bonding costs. The Permittee did not include a contingency factor for expected by unknown items that will be encountered during reclamation.

The Division always includes a contingency for items that will be encountered but have not yet been identified. Experience has shown that reclamation project cost more than originally estimated because of factors that cannot be identified until work begins. Things always cost more and take longer to complete than originally estimated.

The Division estimated the reclamation costs for the Skyline mine to be \$4,794,000 in 2001 dollars. The Division then added \$282,000 for future bonding items. The reasons for the Division adding the \$282,000 were:

- so that the Permittee's and the Division's estimates would be identical
- so that the Permittee would have some excess bond to cover future activities

R645-301- 830.100 states that the bond amount will be determined by the Division. The Division determined the reclamation cost estimate to be \$4,794,000. Therefore, the Permittee is required to post a bond of \$4,794,000. The Division was notified by the Permittee that they will post a \$5,076,000. The Division has agreed to accept the bond and will consider the \$282,000 as excess bond that will be used for future activities.

To avoid confusion the Division should include a copy of their bond estimate in the MRP. The Division's reclamation cost estimate shows how future additional bonding costs should be handled.

Findings:

The Permittee has met the minimum requirements of this section. The Permittee agreed to post a \$5,076,000 bond. The Division should consider \$282,000 of that amount excess bond that will be applied to future activities.