

TECHNICAL MEMORANDUM

Utah Coal Regulatory Program

#3356

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August 27, 2009

TO: Internal File

THRU: Priscilla Burton, En Sci III, Soils, Team Lead *PWB m/sus*
James D. Smith, En Sci III, Hydrology, Permit Supervisor, Team Lead *JDS ca/17/01*

FROM: Peter Hess, En Sci III, Bond *PHH m/sus*

RE: MIDTERM PERMIT REVIEW, Canyon Fuel Company, LLC, Skyline Mine, C/007/0005, Task ID # 3356

SUMMARY:

The Division initiated a mid-term review of the Skyline Mine permit on July 21, 2009.

This document will escalate the current reclamation cost for this site to 2014 dollars, and determine if the Permittee has a sufficient amount of bond posted at this time, or if an additional bond posting is needed.

TECHNICAL ANALYSIS:

RECLAMATION PLAN

BONDING AND INSURANCE REQUIREMENTS

Regulatory Reference: 30 CFR Sec. 800; R645-301-800, et seq.

Analysis:

General

The Division initiated a mid-term review of the Skyline Mine mining and reclamation plan on July 21, 2009. The Division has recently reviewed and approved several amendments to the main facilities areas at Skyline during 2009. These include:

- 1) a concrete pad at the fuel off-loading area in order to comply with new EPA / SPCC requirements;
- 2) two rock dust transfer boreholes from the surface into the Mine workings
- 3) the installation of additional asphalt on the truck loading loop at the lower Eccles Canyon tipple area.

These amendments increased the demolition costs for the Skyline Mine to a new total amount of \$ 1,939,843.00.

Form of Bond

The bond currently held by the Division for the Skyline Mine is a surety bond in the amount of \$ 5,137,000.00. The bond is issued by the St. Paul Fire and Marine Insurance Company. As of June 30, 2009, this surety has an A.M. Best rating of A+.

Determination of Bond Amount

The bond was last increased in 2006 to the current amount, \$ 5,137,000.

A total of the revised Direct Costs and the Indirect Costs = \$ 4,764,450.00.

This total was first escalated for three years (at an escalation factor of 0.013) to 2009 dollars for the three permit amendments discussed above, to \$ 4, 952,690.00.

The Division escalates bond amounts from midterm review to midterm review. Therefore, the current total reclamation cost estimate must be escalated to 2014 dollars.

An escalation amount of \$ 330,344.00 has been determined by the Division, (5 years @ 0.013 escalation).

The required bond amount, rounded to the nearest \$ 1,000 amounts to \$ 5,283,000.00, or a difference of \$ 146,000.

The Permittee must post an additional \$ 146,000.00 bond through the surety.

Terms and Conditions for Liability Insurance

Findings:

The currently posted bond amount of \$ 5,137,000.00 is insufficient to reclaim the Skyline site through 2014.