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STATE OF UTAH
NATURAL RESOURCES & ENERGY
Oil, Gas & Mining

Scott M. Matheson, Governor
Temple A. Reynolds, Executive Director
Cleon B. Feight, Division Director

4241 State Office Building • Salt Lake City, UT 84114 • 801-533-5771

May 7, 1982

Mr. Nick Tennikov, Permit Coordinator
Eureka Energy Corporation
c/o 4 Embarcadero, Suite 1400
San Francisco, California 94106

RE: Bond
Sage Point-Dugout Canyon Project
ACT/007/009
Carbon County, Utah

Dear Nick:

The Division of Oil, Gas and Mining has completed a draft Technical Analysis (TA) of the Mining and Reclamation Permit Application, ACT/007/009, for Eureka's Sage Point-Dugout Canyon Project. It has been forwarded to the Office of Surface Mining for their review. A copy is enclosed for your information. We would like to emphasize that it is in draft form and may undergo revision through the OSM review process.

Included in the TA is a summary of the unit costs for the bond, cost per area over the life of the mine, and the incremental schedule as proposed in the permit application. The bond for the first year of mining was adjusted to 1983 dollars by assuming a 12 percent annual inflation rate since 1980 when the bond was proposed. This worked quite well when the same unit costs were compared to those of other recent bonds accepted by the Division. A 10 percent administrative and contractual cost has been added in accordance with UMC 805.11 and after conferring with Sam Precoppio of OSM.

The following information relative to the requirements and conditions of the performance bond has been developed from the indicated bonding sections of the regulations. It will hopefully aid Eureka Energy in the selection and preparation of the reclamation bond.

Requirements and Conditions

1. Pursuant to 806.12(b), the indemnity agreement must be made payable to:

The State of Utah, Division of Oil, Gas and Mining
or
The United States of America, Office of Surface Mining

Both names must appear with an "OR" separating them.

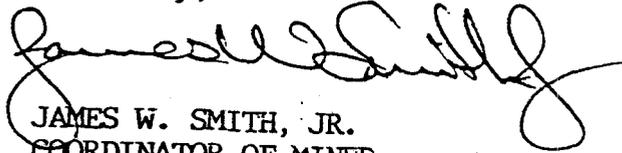
2. Pursuant to UMC 800.11(b)(2), Eureka shall notify the Division in writing 30 days prior to the annual incremental adjustment of the bond. The notice shall indicate the rate of the adjustment to the bond based on the revised acreage of disturbance, as well as the current escalation rate. The effective date of the adjusted bond shall precede further disturbance.
3. The Division shall, in accordance with UMC 800.13 and 805.14(a), determine the amount of the performance bond required for the permit area including adjustments to the initial amount as the acreage of disturbance is revised or other significant modifications to the mine plan are approved. Since an incremental bonding schedule has been chosen, the applicant must provide to the Division an annual summary which details all reclamation and any modifications or changes to the Mining and Reclamation Plan which have occurred over the course of the previous year. The annual summary should be submitted to the Division 90 days prior to the readjustment of the reclamation bond.
4. The estimated bond cost for the first five year permit period is calculated to be \$1,112,417. For the first year of operations, the estimated cost is \$713,880. These costs were derived from the incremental chart submitted in the permit application. A 10 percent administrative and contractual cost was added pursuant to UMC 805.11(a). The 1983 amount was arrived at by a 12 percent annual inflation rate of the 1980 dollars proposed.
5. The applicant must decide on a bond form in light of the choices presented in UMC 806.11. UMC 806.12(e)(1) further describes the conditions upon which a surety bond will be accepted if such a form is chosen.

Mr. Nick Temnikov, Permit Coordinator
ACT/007/009
May 7, 1982
Page 3

We have enclosed the various bond forms which are acceptable to the Division of Oil, Gas and Mining for your reference and use. A copy of our Memorandum of Understanding with the Division of State Lands has also been included.

If you have any further questions, please contact myself or Sally Kefer of my staff.

Sincerely,



JAMES W. SMITH, JR.
COORDINATOR OF MINED
LAND DEVELOPMENT

Enclosures

cc: Richard Dawes, OSM
Charles Durrett, Sunedco Coal Co.
Thomas Wilie, Sunedco Coal Co.

JWS/SK:btb