

#4253

OK

TECHNICAL MEMORANDUM

Utah Coal Regulatory Program

February 21, 2013

TO: Internal File

THRU: April Abate, Lead *AAA* 2/21/13

FROM: James Owen, Engineer *JO*

RE: Midterm Completion Response, NEICO, Wellington Prep Plant, C/007/0012, Task ID #4253

SUMMARY:

On February 5, 2013 the Utah Division of Oil Gas & Mining received a response to deficiencies identified during initial and subsequent reviews of a midterm for the Wellington Preparation Plant. The Division commenced the midterm review (task #4043) on March 13, 2012. The initial response (task #4236) submittal was received on November 20, 2012 and had 3 deficiencies that were addressed with the new application.

The Division performed a review of the Permittee's compliance with the engineering (R645-301-500) and bonding (R645-301-800) sections of the Utah Coal Mining Rules. In particular, the Division reviewed the reclamation bond to ensure that coverage adequately addresses permit changes approved subsequent to permit approval or renewal, and to ensure that the bond amount was appropriately escalated in current year dollars.

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TECHNICAL ANALYSIS:

RECLAMATION PLAN

MAPS, PLANS, AND CROSS SECTIONS OF RECLAMATION OPERATIONS

Regulatory Reference: 30 CFR Sec. 784.23; R645-301-323, -301-512, -301-521, -301-542, -301-632, -301-731.

Analysis:

The application included Maps E9-3341 (Permit Area, Facilities) and E9-3341A (Property Ownership). The maps are accurate and updated. The maps were not correctly certified according to R156-22-601.

Findings:

Contents and information provided are sufficient enough to meet the minimum requirements of this section of the Utah Coal Mining Rules if the maps in the final submittal are properly certified.

BONDING AND INSURANCE REQUIREMENTS

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

Analysis:

General

According to Division a record, the Permittee currently has a posted bond in the amount of \$5,153,000. The principal holder is Fidelity & Deposit Company.

Determination of Bond Amount

At the time of midterm review, the reclamation cost estimate for the Wellington Prep Plant mining and reclamation plan had not been updated to current unit costs. Current unit costs are used to calculate the direct costs of reclamation including demolition, backfilling and grading, and revegetation. Also, there was on-site demolition that was not reflected in the MRP. Updates to the estimated costs, calculations, bond summary sheets and escalation factors were requested.

The response included bond calculations that had been revisited and adjusted. The estimated unit costs for concrete demolition, loading, hauling, and pipe removal were current and updated. These costs were determined with the assistance of DOGM.

The amount of time designated for the reclamation of Road Pond and Heat Dryer Pond were verified by calculations and on-site inspection.

The concrete building foundations within the disturbed area boundary were measured during an on-site inspection and included as line item 12 in the demolition portion of the bonding calculations.

The adjusted spreadsheets and bonding information was included in Appendix J of the application dated January 31, 2013. The response included an overall decrease in the amount of escalated bond from \$5,153,000 to \$4,142,000. Direct costs were decreased from \$3,471,960 to \$3,077,745. Indirect costs were decreased from \$930,485 to \$824,837. The amount of required escalation decreased from \$750,938 to \$239,842.

The operator states that the decrease in the reclamation costs can be attributed to:

- a) Some of the reclamation work has been accomplished
- b) Potentially significant changes in the Earthwork section for the reclamation of two very small ponds: the Heat Dryer Pond and the Road Pond
- c) The escalation factor decreased from 3.2% to 1.2%.

The percent difference between reclamation cost estimate and posted bond is 24.41%. This translates to an excess bond amount of \$1,011,000. A summary of the calculations provided is included below:

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SUMMARY OF BOND CALCULATIONS ⁽¹⁾
FOR THE
WELLINGTON PREPARATION PLANT (C/007/012)

⁽¹⁾ For detailed cost analysis and other information including demolition, earthmoving, volumes, equipment and revegetation, refer to the attached spreadsheets.

DIRECT COSTS

Demolition and Removal	\$240,665
Backfilling and Grading	\$2,074,188
Revegetation	\$762,892
Subtotal Direct Costs	\$3,077,745

INDIRECT COSTS

Mobilization/De-mobilization (10.0%)	\$307,775
Contingency (5.0%)	\$153,887
Engineering Redesign (2.5%)	\$76,944
Main Office Expense (6.8%)	\$209,287
Project Management Fee (2.5%)	\$76,944
Subtotal Indirect Costs (26.8%)	\$824,837

TOTAL COSTS **\$3,902,582**

Escalation factor (0.012)	
Number of years (5.0)	
Escalation	\$239,842

Reclamation Cost Escalated **\$4,142,424**

Dollar Year: 2013
BOND AMOUNT (rounded to nearest \$1,000) **\$4,142,000**

Findings:

Contents and information provided are sufficient enough to meet the minimum requirements of this section of the Utah Coal Mining Rules.

RECOMMENDATIONS:

Approval is recommended on the condition that maps in the final submittal are properly certified.