

TECHNICAL MEMORANDUM

Utah Coal Regulatory Program

June 27, 2011

TO: Internal File

THRU: Daron Haddock, Title V Coal Program Manager *DH*

FROM: Peter Hess, Environmental Scientist III / Inspector / Bonding Evaluation *PHH by SHS*

RE: Response to N10086 /Constructing New Mine Facilities without Proper Division Approval, UtahAmerican Energy, Inc., Lila Canyon Mine, C/007/013, Task ID # 3863

SUMMARY:

During the quarterly complete inspection of June 7, 2011, the construction of a concrete pad and steel structural support for a 30 ton bulk rock dust tank was observed on the ROM storage pile pad at the Lila Canyon Mine. The tank itself had been transported from the Centennial Project to Lila Canyon for installation at that mining operation.

It was determined that the under-construction bulk dust tank had not been permitted within the plan, nor had its demolition been bonded. Furthermore, the bulk dust tank facility had not been depicted on the surface facilities map. A violation was written to the Permittee (N 10086) for constructing facilities without proper Division approval.

The Permittee responded to the violation on June 20, 2011, to address the remedial action requirements necessary to abate the violation. This memo will address the adequacy of that response.

OPERATION PLAN

MINING OPERATIONS AND FACILITIES

Analysis:

N 10086 contained three remedial actions which were to be addressed to correct the violation;

- 1) The Permittee must update the Operation Plan Facilities List, Section 520, and the Support Facilities List, Section 526 to include the proposed bulk dust tank facility.
- 2) The Permittee must develop a demolition and removal cost for the bulk tank support structure and the bulk tank. This additional demolition cost must be added to the direct cost section of the total reclamation cost estimate such that Appendix 8-1 can be updated.
- 3) Plate 5-2, Surface Area, Official Disturbed Boundary Map / Mine Facility List must be updated to include this new facility, and the location of the unit must be depicted on this same Plate 5-2.

The Permittee's response of June 20, 2011 (Task ID # 3861) contained the following updated information;

- a) An updated Mine Facilities List / Lila Canyon Mine within section 520. OPERATION PLAN; (See text addition to item #17, 30 ton Rock Dust Silo, page 9).
- b) The Permittee developed a demolition and removal cost for the 30 ton tank and its support structure (concrete and steel beams). An additional direct cost of \$ 2512 was determined for transportation of the tank off the property, demolition of the steel bracing, and onsite disposal of the concrete. The direct cost section of the Total Page for the reclamation cost estimate was updated to include this additional demolition and removal cost.
- c) An updated Plate 5-2, Surface Area, Official Disturbed Boundary Map / Mine Facility List was submitted which added the bulk rock dust tank facility and depicted its location. Plate 5-2 was the bulk dust tank updates was submitted as additional information relative to Task ID # 3863 on June 27, 2011.

Findings:

The information which the Permittee submitted to update the maps, text and reclamation cost estimate contained in the MRP effectively meets the requirements for the three remedial actions listed in N10086. The submitted information adequately addresses the requirements in the notice of violation. The violation will be terminated based upon this finding.

RECLAMATION PLAN

BONDING AND INSURANCE REQUIREMENTS

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

Analysis:

General

The Permittee currently has a surety bond posted with the Division in the amount of \$ 1,807,000. The surety amount is provided by two companies; XL Specialty Insurance Company and Rockwood Casualty Insurance Company. Both companies have an A.M. Best rating of "A".

Form of Bond

All bonds posted to compile the \$ 1,807,000 amount are surety bonds.

Determination of Bond Amount

The reclamation cost estimate for the Lila Canyon Mine was last updated during the permit amendment review titled "Surface Design Changes", which received final approval on July 26, 2010. Prior to approval of that amendment, the Permittee was required to post an additional \$ 113,000 of bond, bringing the total posted bond amount to \$ 1,807,000.00.

The addition of the 30 ton bulk rock dust tank to the Lila Canyon facility added an additional \$2,500 to the direct costs for demolition and removal of the installation.

Total Direct Costs were calculated to be \$ 1,432,367.00.

Total Indirect Costs are now \$ 383,874.00.

The total for the reclamation cost estimate is \$ 1,816,241.00.

The escalation amount to 2014, (next mid-term permit review) is \$ 94,445.00.

The Total Reclamation Cost estimate is \$ 1,910,686.00 (2014 dollars).

A difference of - \$ 104,000 exists between the currently posted bond amount (\$ 1,807,000.00) and the 6/20/2011 escalated reclamation cost estimate (\$ 1,911,000.00). This is a difference of -5.75 %.

Terms and Conditions for Liability Insurance

The Permittee renewed the general liability insurance coverage for the Lila Canyon Mine on June 1, 2011. This policy is renewed annually, and the current coverage meets all insurance requirements mandated in the R645 Coal Mining Rules. The renewal form is on file within the Division's records.

Findings:

The Permittee has effectively addressed all of the remedial actions listed in Notice of Violation # 10086 dated June 8, 2011.

The Division will terminate the violation.

RECOMMENDATION:

Conditional Approval based on clean copies with recalculated bond costs.