

TECHNICAL MEMORANDUM

Utah Coal Regulatory Program

July 27, 2010

TO: Internal File

THRU: Steve Christensen, En Sci III, Reclamation Hydrologist, Team Lead *SKC*
James D. Smith, En Sci III, Permit Supervisor, Task Manager

FROM: Peter Hess, En Sci III, Reclamation Specialist, Bond Review *PHH m/805*

RE: MIDTERM PERMIT REVIEW, Canyon Fuel Company, LLC, Dugout Canyon Mine, C/007/039, Task ID # 3592

SUMMARY:

The Division initiated a midterm permit review of the Dugout Canyon Mine mining and reclamation plan on July 15, 2010.

A review of the reclamation cost is always performed by the Division during each midterm.

This memo will address the amount of the reclamation cost, as it would be determined by using 2010 fixed costs, and the adequacy of the amount of bond currently posted (\$ 3,550,000.00).

TECHNICAL ANALYSIS:

RECLAMATION PLAN

BONDING AND INSURANCE REQUIREMENTS

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

Analysis:

General

The amount of bond currently posted to ensure the reclamation of the Dugout Canyon Mine and its associated disturbed areas is \$ 3,550,000.00. The amount of disturbance is 106.7 acres.

Form of Bond

Argonaut Insurance Company is the surety providing the liability coverage for the Canyon Fuel Company, LLC, Dugout Canyon Mine.

Determination of Bond Amount

R645-301-830; R645-301-830.140;

“The amount of bond required ...be based on...the detailed estimated cost, with supporting calculations for the estimates, submitted by the permit applicant”.

The detailed cost estimate sheets, as they currently exist in Volume 3, Chapter 5, APPENDIX 5-6, Bond Calculation, which were approved / incorporated on **September 8, 2005** contain unit costs which are outdated. The reclamation cost estimate, which consists of approximately 98 pages, uses unit costs which are out of date. Therefore, the cost estimate for the Dugout Canyon Mine must be updated using current unit costs from the R.S. Means *Heavy Construction Cost Data* 2010 Edition.

In accordance with the requirements of **R645-301-830.140**, the Permittee must revise the current reclamation cost estimate using current unit costs for 2010, and submit that new estimate, which is to include totals for the demolition, backfilling and grading, and revegetation of the disturbed areas, as well as totals for the indirect costs involved, and an escalated cost estimate to 2015 to the Division for review. The Division is responsible for the evaluation of that document to determine if the current amount posted is adequate to cover the newly calculated reclamation cost estimate.

Terms and Conditions for Liability Insurance

Canyon Fuel Company, LLC maintains the required general liability insurance coverage for the Dugout Canyon Mine through the National Union Fire Insurance Company, Pittsburgh, Pa. The insurance coverage term is one year, running from July 31, 2009 through July 30, 2010.

Findings:

The currently approved reclamation cost estimate is outdated and it must be updated using current unit costs for 2010. In accordance with:

R645-301-830.140, Detailed Estimated Cost; the Permittee will provide detailed cost estimates, with supporting calculations to the Division,

Upon receipt, the Division will determine if the posted bond amount is adequate to cover the new reclamation cost estimate.

RECOMMENDATION

The Permittee must provide a new reclamation cost estimate using current 2010 unit costs, as obtained from R.S. Means *Heavy Construction Cost Data*.

A recommendation for approval cannot be made at this time.

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