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TECHNICAL MEMORANDUM

Utah Coal Regulatory Program

December 19, 2010

TO: Internal File

THRU: Ingrid Campbell, En Sci II, Reclamation Biologist, Team Lead
 Jim Smith, En Sci III, Reclamation Hydrologist, Permit Supervisor

FROM: Peter Hess, En Sci III, Reclamation Specialist III, Bond Review

RE: Phase II & III Bond Release Fan Portal Area / Permittee Response to Conditional Approval of October 4, 2010, PacifiCorp / Energy West Mining Company, Cottonwood / Wilberg Mine, C/015/019, Task ID #'s 3594 and 3600

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SUMMARY:

The Division granted a conditional approval of the Phase II and Phase III bond release application for the Miller Canyon Portals and the Cottonwood Fan Portal on October 4, 2010. Four deficiencies were generated by the Division which included a list of the portals locations which remain to be reclaimed, an updated Map 3-1 showing seven ASCA's, a revised Map 3-1 which depicts the ASCA known as the Trail Mountain access tunnel disturbed area, as well as a revised Map 4-5, Subsidence Areas.

In the Task ID # 3600 application, the Permittee requested a reclamation cost estimate / bond reduction amount of \$ 109,791.00. This amount was recommended for approval on September 13, 2010, and was based on two direct cost areas for earth work and revegetation for the fan portal area and the associated indirect costs.

The Permittee's response to the Conditional Approval of Task ID # 3600 included a revised reclamation cost estimate / bond amount required which is to be inserted into Volume 2, Part 4, Reclamation Plan, Appendix C, Bond Calculations.

This memo will address the adequacy of the Permittee's bond / reclamation cost revisions and recommend the amount of bond which should be released to provide adequate reclamation bond coverage through 2012.

BONDING AND INSURANCE REQUIREMENTS

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

Analysis:

General

The area which is being proposed for a Phase II and Phase III release, and the subsequent incremental reduction in the amount of reclamation bond is the Cottonwood Fan Portal area, which consists of 7.47 acres of disturbance.

The Division last updated the reclamation bond for the Cottonwood / Wilberg Mine in May of 2007 during the midterm permit review, Task ID # 2830. The bond summary for the updated calculations can be found in the Cottonwood / Wilberg MRP, Volume 2, Part 4, Appendix C, Bond Summary Page. This information breaks down the demolition, backfilling and grading and re-vegetation costs for each main disturbed area associated with this site.

Form of Bond

The \$ 3,252,000.00 bond which is held by the Division to ensure the reclamation of the Cottonwood / Wilberg Mine is a surety bond, with the Principal Holder being the Travelers Casualty and Surety Company of America. This surety has an A.M. Best rating of "A+". This information was current as of September 30, 2010.

Determination of Bond Amount

The Task ID # 3600 application received in response to the Conditional Approval approved on October 4, 2010 is asking for an incremental bond reduction in the amount of **\$ 85,305.00**. This figure is the sum of the direct costs for earthwork and re-vegetation for the fan Portal area as determined in the Task ID # 2830 Midterm Permit Review (done in May 2007, i.e., 2007 dollars).

The Total Reclamation Cost estimate in 2007 dollars was calculated at \$ **2,670,241.00**.

The \$ 2,670,241.00 was then escalated for 3 years to 2010 dollars at a 0.032 escalation factor (escalation dollar amount of \$ 264,634.00). The Reclamation Cost after release of the direct costs for the cottonwood Fan Portal = \$ 2,934,875.00.

The Total Reclamation Cost rounded to 2010 dollars = **\$ 2,935,000.00**.

\$ 2,935,000.00 escalated to 2012 dollars (the date of the Divisions next midterm permit review) using a 0.005 escalation rate for 2 years (1.01) = **\$ 29,423.00**.

The Total Reclamation Cost escalated to 2012 dollars = \$ 2,964,423.00, or \$ 2,964,000.00 rounded to the nearest \$ 1,000.00.

The posted bond amount exceeds the escalated reclamation cost estimate to 2012 dollars by (\$ 3,252,000 - \$ 2,964,000) = \$ 288,000 or 8.86 %.

Findings:

The \$ 3,252,000.00 bond which is currently in place should be reduced to \$ 2,964,000.00 or a reduction in total bond amount of \$ 288,000.00.

This reduced bond amount meets the requirements of the R645 Coal Mining Rules relative to bonding and insurance.