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April 27, 2017

Subj: Response to the Deficiencies of the Mid-Term Review of the Cottonwood/Wilberg Mine, PacifiCorp, Task ID #5307, Cottonwood/Wilberg Mine, C/015/0019, Emery County, Utah.

PacifiCorp, by and through its wholly-owned subsidiary, Interwest Mining Company, as mine manager, hereby submits responses to the deficiencies received by the Division in the March 10, 2017 mid-term review of the Cottonwood/Wilberg Mine.

The two deficiencies noted by the Division have been previously address by Interwest in cooperation with the Division. The first deficiency describes the need for a reclamation design for the TMA Portal in Cottonwood Canyon. This design has been incorporated into the revised reclamation plan that is currently being review by the Division for approval.

The second deficiency describes the need to update the bond for the Cottonwood/Wilberg Mine. As explained in the attached responses, the currently approved and posted bond considers all demolition, earthwork, and revegetation activities. Interwest completed demolition in 2015. The dollars estimated for demolition were just under \$1M. In a discussion with the Division on April 19, 2017, it was agreed that the Division would be sufficiently protected against default if the current bond was left in place. Therefore, it was decided that there is no need to re-calculate the current bond nor escalate it to 2021 dollars.

Attached with this cover letter are the responses to the deficiencies and comments of the mid-term review of the Cottonwood/Wilberg Mine. If you have any questions regarding these responses, please feel free to call me at 435-687-4721 or Dennis Oakley at 435-687-4825.

Sincerely,

Kenneth F. Fleck
Geology and Environmental Affairs Manager

Enclosures

Cc Scott Child
file

The following responses to deficiencies are formatted as found in the technical analysis document. They are broken down into logical section headings similar to the R645 regulations. In each section, the regulation number along with the associated deficiency is followed by the permittee's italicized response.

General Contents

Legal Description

Task 5082, Permit Area Adjustment was denied. An agreement between the Cottonwood/Wilberg Mine (Interwest) and the Fossil Rock Mine (Fossil Rock Resources) must be made in regards to the perpetual discharge and associated reclamation within the property in question (sliver between Cottonwood Creek to Cottonwood Canyon Road).

Until such time that the Cottonwood/Wilberg Mine (Interwest) and the Fossil Rock Mine (Fossil Rock Resources) present an agreement for ownership and reclamation of the perpetual discharge from the Cottonwood/Trail Mountain Portal, the legal description can't be modified to change the western boundary from Cottonwood Creek to Cottonwood Canyon Road.

Response:

PacifiCorp believes that an agreement between PacifiCorp and Fossil Rock is not necessary. In the November 7, 2017 recantation of PacifiCorp's permit boundary revision for the Cottonwood Mine, the Division determined that a sufficient reclamation design for the perpetual discharge of mine water was not on file with the state. Coinciding with Cottonwood's permit boundary amendment, PacifiCorp has been working with the Division and OSM to revise the reclamation plan of the Cottonwood Mine. The latest submittal of this plan was submitted April 25, 2017. PacifiCorp is hopeful that the revised reclamation plan is to a point that the Division can approve it. Once this plan is approved, PacifiCorp will have a sufficient reclamation design for the permanent mine discharge and it can move forward with revising the western boundary of the Cottonwood permit without issue and without having to involve Fossil Rock Resources.

Reclamation Plan

Mine Openings

The current MRP does not meet the State of Utah R645 requirements for Mine Openings.

The requirements of R645-301-513.500, R645-301-529, and R645-301-551 are not met within the current MRP as there is no change to the existing MRP sealing of mine openings at the time of final reclamation as the Cottonwood ventilation breakouts currently have discharge into the Cottonwood Canyon drainage

and the current sealing plan would result a water retaining bulkhead. MSHA will not approve any water retaining bulkheads therefore the Figure 1 within Volume 2, Part 4 shows the typical sealing plan for the portals associated with the Cottonwood/Wilberg Mine.

The amendment does not meet the State of Utah R645 for Mine Openings. The following deficiency must be addressed prior to final approval.

R645-301-551: The Permittee must update their mine sealing plan to account for the water discharge out of the Cottonwood ventilation seals.

Response: On April 25, 2017, PacifiCorp resubmitted the revised reclamation plan for the Cottonwood mine. This revised plan includes detailed information, as well as a design showing how the ventilation portal (aka TMA Portal) was sealed to include a permanent mine discharge. The TMA Portal was sealed in May/June 2001. Final reclamation of the entire area in Cottonwood Canyon was completed in November 2014.

Bond Determination of Amount

The midterm review of the MRP does not meet the State of Utah R645 requirements for Determination of Bond Amount because no updated midterm bonding estimates have been provided by the Permittee. The Division requires an evaluation of the reclamation cost estimate during each midterm permit review. This cost estimate is then escalated for five years or until the next midterm review. In accordance with the requirements of R645-303-211, R645-301-830, and -301-830.140, it is the Permittee's responsibility to provide detailed estimated cost sheets to support the reclamation cost estimate.

The midterm review of the amendment to update the MRP does not meet the minimum requirements of R645-301-830.140 due to missing information as that the Permittee has not submitted updated bond information in regards to the midterm review of the MRP.

The Permittee must update the unit cost data used in the 2011 Midterm Permit Review reclamation cost estimate to 2016 unit costs using the 2016 R.S. Means Heavy Construction Cost Data manual. All computation sheets for demolition, earthwork and re-vegetation must be updated and submitted to the Division so the Division can determine the required bond amount needed through 2021. In accordance with R645-301-830.410, Division Technical Directive 007, and Office of Surface Mining Handbook for Calculation of Reclamation Bond Amounts the Permittee may utilize third party contractors for cost references when a general cost references does not adequately describe the required reclamation task. In the event the Permittee utilizes local third party contractors cost estimates within the reclamation bond amount additional information must be submitted with the application including a minimum of three individual quotes for the work. References may include items such as a letter or email transcript but must include all relevant contact information from the contractor so that the Division may contact said contractor to verify unit cost is valid in the event the Division was the hiring personal. References must be

submitted at the time the reclamation bond amount is submitted to the Division. The Permittee will submit detailed cost references for all contracted costs of reclamation.

In accordance with R645-301-830.410, Division Technical Directive 007, and Office of Surface Mining Handbook for Calculation of Reclamation Bond Amounts the Permittee must utilize bare unit costs when using standardized cost reference manuals such as R.S. Means Heavy Construction. The Division applies an indirect cost of 26.8% that covers overhead and profit calculations in the indirect line items of the total sheet. The Permittee will utilize the bare unit cost when utilizing R.S. Means Heavy Construction cost reference.

The Cottonwood/Wilberg Midterm review, in accordance with R645-303-211, was commenced on November 8, 2016 by the Division. In accordance with R645-301-830.410, Division Technical Directive 007, and Office of Surface Mining Handbook for Calculation of Reclamation Bond Amounts the Permittee must utilize the dollar year for which the midterm was commenced. The escalation to the next midterm must also be amended to calculate the new escalation to the next midterm review, five years.

The total reclamation cost for the Cottonwood/Wilberg Mine (sum of the direct and indirect costs) must be escalated from 2016 to 2021 (5 years) using an escalation factor of 0.7%.

This escalated cost is rounded to the nearest \$ 1,000 to determine the amount of required bond which must be posted with the Division by the Permittee.

Response: *The current detailed 2011 bond calculations are found in Volume 2, Part 4, Appendix C. The total is \$2,365,895 in 2016 dollars. Demolition was completed in 2015. Final earthwork and revegetation is planned for the 2017 field season if PacifiCorp can secure an approved revised reclamation plan from the Division.*

On April 19, 2017, PacifiCorp met with the Division to discuss the potential of leaving the currently approved bond intact. It was concluded that the State would be made whole whether the current bond was left intact or the bond would be revised to reflect the activities proposed by the revised reclamation plan. Because nothing would be gained by revising the bond, it was agreed that the currently approved bond would be left intact. Therefore, the bond estimate currently found in Volume 2, Part 4, Appendix C will be moved to Volume 2, Part 4, Appendix H pending approval of the revised reclamation plan resubmitted on April 25, 2017.

At the time the reclamation is completed at the Cottonwood Mine, PacifiCorp would apply for Phase I Bond Release and reduce the bond by 60% to \$946,358. PacifiCorp would retain a rider bond decreasing the surety bond to this amount and naming the Division as payee in the case of default.