



STATE MINING AND GEOLOGY BOARD

EXECUTIVE OFFICER'S REPORT

For Meeting Date: April 15, 2010

Agenda Item No. 3: Approval of Adjusted Financial Assurance Cost Estimate for Knife River Hallwood Plant (CA Mine ID #91-58-0002), Knife River Construction (Operator), Mr. Rene Vercruyssen (Agent), County of Yuba.

INTRODUCTION: The State Mining and Geology Board (SMGB) acts as the lead agency for Yuba County, pursuant to the Surface Mining and Reclamation Act of 1975 (SMARA, Public Resources Code (PRC) Section 2710, et seq.). SMARA requires that each surface mining operation maintain a financial assurance in an amount adequate to reclaim, in accordance with the requirements of an approved reclamation plan, the land disturbed by the mining operation at the conclusion of mining activities. SMARA lead agencies are required to annually review the financial assurance amounts for each surface mining operation, and adjust the amount, as necessary, to account for new land disturbed, inflation, or land reclaimed. In any event, the lead agency must ensure that the approved amount is adequate to reclaim the mine site in accordance with the approved reclamation plan (PRC Sections 2770 and 2773.1, and California Code of Regulations (CCR) Section 3804).

STATUTORY AND REGULATORY AUTHORITY: Financial assurance cost estimate adjustment requirements are discussed under SMARA, and within the SMGB's regulations and guidelines. Lead agencies are required to assure that financial assurances for reclamation are sufficient pursuant to Division 2, Chapter 9, Article 5 of PRC Section 2770(d) which states:

"The lead agency's review of reclamation plans submitted pursuant to subdivision (b) or of financial assurances pursuant to subdivision (c) is limited to whether the plan or the financial assurances substantially meet the applicable requirements of Sections 2772, 2773, and 2773.1, and the lead agency surface mining ordinance adopted pursuant to subdivision (a) of Section 2774, but, in any event, the lead agency shall require that financial assurances for reclamation be sufficient to perform reclamation of lands remaining disturbed. Reclamation plans or financial assurances determined to substantially meet these requirements shall be approved by the lead agency for purposes of this chapter. Reclamation plans or financial assurances determined not to substantially meet these requirements shall be returned to the operator within 60 days. Reclamation plans or financial assurances determined not to substantially meet these



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requirements shall be returned to the operator within 60 days. The operator has 60 days to revise the plan or financial assurances to address identified deficiencies, at which time the revised plan or financial assurances shall be returned to the lead agency for review and approval.”

In addition, PRC Section 2773.1(a) states:

“...Lead agencies shall require financial assurances of each surface mining operation to ensure reclamation is performed in accordance with the surface mining operation's approved reclamation plan, as follows:

(3) The amount of financial assurances required of a surface mining operation for any one year shall be adjusted annually to account for new lands disturbed by surface mining operations, inflation, and reclamation of lands accomplished in accordance with the approved reclamation plan.”

Furthermore, the SMGB's regulations, pursuant to Article 11 of the CCR Section 3804, Calculation of Financial Assurance Amount, states:

“(a) The Financial Assurance Amount shall be calculated as prescribed in Public Resources Code Section 2773.1 and based on:

- (1) an analysis of the physical activities and materials necessary to implement the approved reclamation plan;*
- (2) the lead agency's unit costs, or costs for third party contracting, for each of these activities, if applicable;*
- (3) the number of units of each of these activities, if applicable;*
- (4) a contingency amount not to exceed 10% of the reclamation costs.*

(b) The calculated amount should not include the cost of completing mining of the site.

(c) In order for the lead agency or the Department of Conservation to determine what annual adjustments, if any, are appropriate to the Financial Assurance Amount, the operator shall annually submit to the lead agency a revision of the written calculation required under Section 3804(a).”

BACKGROUND: The Knife River Hallwood Plant is located in the historic Yuba Gold Fields about 6 miles northeast of Marysville, California. The site is situated to the north-northwest of the Yuba River, and south of State Highway 20. Irregular in shape, the Hallwood site includes the original mining and processing plant areas which encompass about 288 acres,



and a northern expansion area of about 200 acres, for a total approved area of about 488 acres. Currently, approximately 318 acres of the Knife River Hallwood Plant site are deemed disturbed. However, based on analysis by SMGB staff, approximately 118 acres of the site are currently considered to be in need of treatment if mining activities were to cease and reclamation activities were to commence today, while the remaining 200 acres are occupied by open water, as required by the approved reclamation plan.

It should be noted that during our recent review the estimated revegetation costs were considered low, as SMGB staff estimate approximately 60 acres would require seed application versus the 45 acres used by the operator. This increased acreage would result in direct costs for revegetation of approximately \$27,828, versus \$27,041 calculated by the operator. However, it is also noted that the indirect costs calculated by the operator are quite high – specifically costs for supervision, profit/overhead, and mobilization. When accounting for SMGB staff adjustments to revegetation and indirect cost estimates, the total estimated cost of reclamation as presented by the operator is considered to be quite substantial.

The Knife River Hallwood Plant was inspected by SMGB staff on September 16, 2009. The existing financial assurance on file for the site is in the amount of \$145,620.85. Based on our recent analysis and review of site conditions and submitted documents, the revised financial assurance cost estimate in the amount of \$141,208.94 to be adequate to conduct and complete reclamation of the mined lands in accordance with the approved reclamation plan.

A summary of the total estimated costs for reclamation as provided by the operator is as follows:



FINANCIAL ASSURANCE COST ESTIMATE (FACE) ADJUSTMENT:

I.	Primary Reclamation Activities	\$ 53,144.00
II.	Revegetation	\$ 27,041.38
III.	Plant Structures and Equipment Removal	\$ -0-
IV.	Miscellaneous Costs	\$ 4,500.00
V.	Monitoring	\$ 2,400.00

Total Direct Cost **\$ 87,085.38**

I.	Supervision/Overhead/Contingencies	
a.	Supervision (7%)	\$ 6,095.98
b.	Profit/Overhead (14%)	\$ 12,191.95
c.	Contingencies (10%)	\$ 8,708.54
d.	Mobilization (10%)	\$ 8,708.54

Total Indirect Cost **\$ 35,705.01**

Total Direct and Indirect Costs **\$122,790.39**

Lead Agency administrative cost (15%) \$ 18,418.56

Total Estimated Cost for Reclamation \$141,208.95

Total Estimated Cost for Reclamation **\$141,209.00**
(Rounded to nearest dollar)

CONSIDERATION BEFORE THE SMGB: The SMGB may consider the following actions:

1. Approve as adequate the adjusted financial assurance cost estimate, without modifications;

[or]

2. Modify the adjusted financial assurance cost estimate, and then accept it as adequate;

[or]

3. Reject the adjusted financial assurance cost estimate as inadequate and order it to be redone.

EXECUTIVE OFFICER'S RECOMMENDATION: The Executive Officer recommends that the SMGB approve the adjusted financial assurance cost estimate. The adjusted financial assurance cost estimate has been reviewed for its consistency and completeness in meeting the minimum requirements of SMARA, and the SMGB's regulations and guidelines. The Office of Mine Reclamation (OMR) has reviewed the adjusted financial assurance cost estimate and concurred that the amount is adequate via memorandum dated March 26, 2010. Based on the annual inspection conducted in 2009 and SMGB staff review of submitted documents, the recently revised FACE amount is deemed to be adequate.

SUGGESTED MOTION LANGUAGE:

To approve the Adjusted Financial Assurance Cost Estimate:

Mr. Chairman, in light of the information before the State Mining and Geology Board today, I move that the Board approve the adjusted financial assurance cost estimate of \$141,209.00 for the Knife River Hallwood Plant, CA Mine ID #91-58-0002, located in Yuba County, as being adequate to reclaim the site in accordance with the approved reclamation plan, and meeting the minimum requirements of SMARA and the Board's regulations.

Respectfully submitted:

Stephen M. Testa
Executive Officer