



STATE MINING AND GEOLOGY BOARD

EXECUTIVE OFFICER'S REPORT

For Meeting Date: May 12, 2011

Agenda Item No. 5: 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) serves as the lead agency for the County of El Dorado 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 according to the reclamation plan requirements (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 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."



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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 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.

An inspection of the Knife River Hallwood Plant surface mining operation was performed on August 16, 2010. No violations or corrective measures were noted during this inspection. The financial assurance cost estimate has been adjusted to reflect current site conditions, current equipment, labor and fuel rates, and anticipated disturbance over the next calendar year. The financial assurance mechanism currently on file with the SMGB is in the amount of \$145,620.85, which was approved by the SMGB July 10, 2008. Subsequently, on April 15, 2010, the SMGB approved a revised financial assurance cost estimate in the amount of \$141,489.00. The Knife River Hallwood Plant remains subject to a financial assurance, and based on our recent analysis and

review of site conditions and submitted documents, SMGB staff considers the revised financial assurance cost estimate in the amount of \$135,715.39 to be adequate to conduct and complete reclamation of the mined lands in accordance with the approved reclamation plan. This recently revised estimate is less than the previously provided estimate by an amount of approximately \$5,500. However, the total direct costs in the recent estimate are actually higher than the previous estimate, as the reduction in total costs is due to corrections in the percentages used to calculate indirect costs, which were erroneously high in the previous (April 15, 2010) estimate. The following table summarizes the recently adjusted financial assurance cost estimate:

FINANCIAL ASSURANCE COST ESTIMATE (FACE) ADJUSTMENT:

I.	Primary Reclamation Activities	\$ 53,198.40
II.	Revegetation	\$ 28,566.80
III.	Plant Structures and Equipment Removal	\$ -0.00-
IV.	Miscellaneous Costs	\$ 4,500.00
V.	Monitoring	\$ 2,400.00
	Total Direct Cost	\$ 88,665.20
VI.	Supervision/Overhead/Contingencies	
	a. Supervision (5.9%)	\$ 5,231.25
	b. Profit/Overhead (12.2%)	\$ 10,817.15
	c. Contingencies (10%)	\$ 8,866.52
	d. Mobilization (5.0%)	\$ 4,433.26
	Total Indirect Cost	\$ 29,348.18
	Total Direct and Indirect Costs	\$ 118,013.38
	Lead Agency administrative cost (15%)	\$ 17,702.01
	Total Estimated Cost for Reclamation	\$ 135,715.39
	Total Estimated Cost for Reclamation (Rounded to Nearest Dollar)	\$ 135,715.00

CONSIDERATIONS BEFORE THE SMGB: The SMGB may take the following actions:

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

[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 adjusted financial assurance cost estimate for the Knife River Hallwood Plant has been reviewed for its consistency and completeness in meeting the minimum requirements of SMARA, and the SMGB's regulations and guidelines. SMGB staff consider the subject adjusted financial assurance cost estimate adequate to reclaim the site in accordance with the approved reclamation plan. The Executive Officer recommends that the SMGB approve the adjusted financial assurance cost estimate.

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 SMGB approve the adjusted financial assurance cost estimate of \$135,715.00 for the Knife River Hallwood Plant surface mining operation, CA Mine ID #91-58-0002, located in the County of Yuba, as adequate to reclaim the site in accordance with the approved reclamation plan, and as adequate in meeting the minimum requirements of SMARA and the SMGB's regulations.

Respectfully submitted:

Stephen M. Testa
Executive Officer