

MEMORANDUM

TO: Mine Operators and Lignite Council

FROM: Reclamation Division

DATE: August 3, 2005

SUBJECT: Annual update of variable costs contained in Policy Memorandum No. 16, the Reclamation Cost Estimating Guidelines dated October 28, 1998

Attached is the annual update to the Appendix for the Reclamation Cost Estimating Guidelines containing the variable costs as of July 1, 2005. These costs are used to establish reclamation bond amounts for permit areas. The 34th and the 31st Editions of the Cat Performance Handbook remain the source of the equipment operating costs. The reason for the continued use of the 31st Edition was that Cat removed the operating costs from the newer additions. An alternate source for these costs may have to be selected in the future. Nearly all of the variable costs were affected by this year's update. The prime interest rate increased two percent along with higher fuel cost, tire costs, and wages, **raising the hourly equipment rates by more than 15% on the average**. Based on the bids the Commission's AML Division received for work in 2005 and the rise in hourly equipment rates, the per cubic yard price for small mines is adjusted upward. Therefore, the \$0.70 per cubic yard rate is increased to \$0.80 per cubic yard to follow the increases in hourly equipment costs for larger mines.

The following variable cost items were adjusted: fuel costs; residual values; equipment prices; and, tire costs. Other items reflected in the cost changes were the labor, fertilizer and seed costs. The custom farm rates are based on the 2004 publication by the North Dakota Agricultural Statistics Service.

The fuel cost was obtained from the Fleet Services Division, ND Department of Transportation, and J-5 Transport provided transportation costs. Fleet Services has a direct source for the wholesale cost of fuel for the region. The tire prices were obtained from Lignite Tire of Beulah and OK Tire of Bismarck.

The list prices of the equipment and suggested residual values were obtained from Brian Rebel of Butler Machinery on July 15, 2005. The prices of new and used equipment both increased due to the current demands. An evaluation of new and used end dump truck prices indicated that current market conditions no longer justify a greater discount than the other equipment. Therefore, the list price for the 777D end dump truck is now discounted at 10%.

Unless a pending or new revision application will be approved before the end of this year that revises the current worst-case reclamation condition at a mine, separate revision applications must be filed by November 15, 2005, for each mine (or permit area) to update the current reclamation cost estimate using the updated variable costs attached to this memo. If the worst-case reclamation condition described in the reclamation cost estimate has passed, the need to update the cost estimate will be reviewed on a case-by-case basis.