

# **Appendix C**

## **Indirect Costs**



State of New Mexico  
ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT  
and the  
ENVIRONMENT DEPARTMENT

Michelle Lujan Grisham  
Governor

Howie Morales  
Lieutenant Governor

Sarah Cottrell Probst  
Cabinet Secretary Designate, EMNRD

James Kenney  
Cabinet Secretary Designate, NMED

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**Certified Mail**

January 16, 2019

Sherry Burt-Kested, Manager  
Environmental Services  
Freeport-McMoRan Chion Mines Company  
P.O. Box 10  
Bayard, NM 88023

**Re: Approval of Cost Estimate Resolutions (Agreement) and Request for Schedule**

Dear Ms. Burt-Kested,

The New Mexico Mining and Minerals Division of the Energy, Minerals and Natural Resources Department (MMD-EMNRD), and the Mining Environmental Compliance Section (MECS) of the New Mexico Environment Department (MECS-NMED) (collectively, the Agencies) received a letter with tabulated cost estimate resolutions (Agreement) dated January 11, 2019, from Freeport McMoRan New Mexico Operations (FMNO). As noted in your letter, the Financial Assurance (FA) work group included representatives of the Agencies, FMNO, and the Gila Resources Information Project (GRIP). Over the course of multiple meetings and teleconferences, the FA work group developed the Agreement in 2018. The Agencies hereby approve the Agreement for the formulation of cost estimates for closure/closeout plans at the Continental, Little Rock, Tyrone and Chino Mines.

Since the FA work group reached agreement, the Agencies concur this precludes the need for a third party review of cost estimates that had been conditionally required by condition 8.N.7 of MMD Permit No. GR002RE Revision 15-2, and C113.E of NMED Draft DP-1403. FMNO must submit an updated cost estimate by April 3, 2019, in order to fulfill Continental permit condition 8.N.6 of MMD Permit No. GR002RE Revision 15-2, which is similar to condition C113.D of NMED Draft DP-1403.

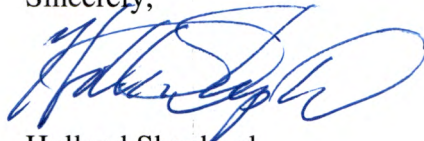
In your letter, FMNO proposed a timeline for the Continental, Chino, and Tyrone mines for the submittal of updated cost estimates. To ensure efficient use of limited resources, the Agencies request FMNO submit a more detailed schedule that provides greater specificity of when the cost estimates and any other major milestones will be completed. The schedule should provide

managers and permit leads a best estimate of key FMNO submittals. With FMNO cooperation, the Agencies anticipate completion of reviews and approvals of cost estimates and associated changes to FA instruments before the end of 2019.

The Agencies acknowledge the successful resolution of multiple cost estimate issues. We appreciate that the FA work group reached agreement through extra effort by FMNO, GRIP, and the Agencies. This Agreement reduces much of the uncertainty associated with FMNO cost estimation and the Agencies' review process. Going forward, the Agencies believe the Agreement ensures timely updates of closure/closeout cost estimates that maintain adequate FA to the mutual benefit of all parties.

If you have any questions, please do not hesitate to contact us or the respective permit leads at MMD and NMED for Continental, Tyrone, Little Rock, and Chino Mines.

Sincerely,



Holland Shepherd  
Program Manager  
Mining Act Reclamation Program  
Mining and Minerals Division-EMNRD  
505-476-3437



Kurt Vollbrecht  
Program Manager  
Mining Environmental Compliance Section  
New Mexico Environment Department  
505-827-0195

cc: Allyson Siwik, Executive Director, GRIP  
MMD mine permit files GR002RE, GR007RE, GR009RE and GR010RE.  
NMED discharge permit files DP-1236, 1340, DP-1341 and DP-1403.

**Table 1 Summary of Cost Estimate Resolutions**

Issue Item	Resolution
<b>Equipment Unit Cost Source and Removal of Indirect Cost Items from EquipmentWatch Ownership Values</b>	Equipment costs determined in the following order sourced from EquipmentWatch: <ul style="list-style-type: none"> <li>• <b>Unmodified</b> EquipmentWatch Average Rental Rate for Southern New Mexico</li> <li>• <b>Unmodified</b> EquipmentWatch Average Rental Rate for New Mexico</li> <li>• <b>Unmodified</b> Blue Book Rental Rate</li> <li>• If equipment is not listed in EquipmentWatch, then another piece of equipment must be used</li> <li>• <b>Minimum listed rates will not be used</b></li> <li>• <b>EquipmentWatch Average Rental Rates will be used without adjustment for duplicative indirect cost components</b></li> </ul>
<b>Revegetation</b>	Revegetation steps costed in similar manner to other earthworks
<b>Demolition Costs</b>	Freeport will add 20% for buildings with large equipment (e.g., mills, SX, crusher)
<b>Direct "Commodity" Costs / Quotes</b>	It is fine to use quotes, but the quotes must be for the specifications and scope/scale of Freeport's default scenario (e.g., fuel to complete all Freeport New Mexico mine closures over a series of years). The following are specific examples discussed. <ul style="list-style-type: none"> <li>• <b>FNMO will compile a database of vendor quotes as they are developed for submittal to the agencies</b></li> <li>• <b>Quotes will be used directly with no consideration to vendor's profit/overhead or other indirect costing items</b></li> <li>• <b>Quotes will be used directly with no adjustment for duplicated indirect components</b></li> </ul>
Fuel	Use historical quotes and correlate to public data for future cost estimates
Seed	Freeport quotes, specs and scope
Lime	Freeport quotes, specs and scope
Mulch	Freeport quotes, specs and scope
Articulated Concrete Blocks	Freeport quotes, specs and scope
Well Plugging/replacement	Freeport quotes, specs and scope
Geomembranes (e.g., stormwater pond replacement)	Use RS Means published data
Power	Published rates for area, scope considered
<b>State Labor Rates</b>	Use prevailing wage as published by NMDOLA, which includes fringe benefits
<b>Indirect Rates</b>	Negotiated total values ( <b>includes: mobilization and demobilization, contingencies, engineering redesign fees, contractor profit and overhead, project management, administrative expenses, bonding, state procurement costs, construction management, insurance, QA/QC, etc.</b> )
All capital cost items	30%
All Operations and Maintenance cost items	17.5%

Items in black are reformatted from workgroup spreadsheet sent 11/19/2019 and subsequent negotiations

Items in red are from subsequent communications and added for clarity