

**Financial Assurance Calculation Method,
Scope, and Assumptions**
January 2007

Under the terms of the Consent Decree, KUCC is to provide financial assurance for operation and maintenance of the remedy and replacement of treatment facilities at mine closure as described in the OM&R Plan. The method for calculating the amount of this provision and fundamental assumptions used in estimating are described below.

Method of Calculation

Financial Assurance is calculated as the net present value (NPV) of a rolling 40-year, nominal-dollar, cash-flow model of OM&R costs using a seven percent annual discount factor and mid-term discounting. The value of the financial assurance will be reviewed and adjusted on a periodic basis, so provision for contingency is not included in the cash-flow model.

The cash-flow model utilizes costs derived from available engineered estimates, order-of-magnitude estimates, and/or actual cost history. Kennecott is responsible for developing and providing this information to EPA and UDEQ.

The cash-flow model reflects costs as they would be incurred in a normal course of business for KUCC. What this means, in part, is that the timing of some costs (e.g. replacement capital for post-closure treatment systems) in the cash-flow model is dependant on the date of mine closure. The date of mine closure utilized in the cash-flow model will be that used in preparing Rio Tinto's most recent public financial statements.

The financial assurance amount will be reviewed and adjusted as necessary during each Five-Year Review. Kennecott may request an interim review and adjustment for significant changes in circumstances included but not limited to the timing of mine closure, technological innovations, significant improvement in groundwater quality, etc.

Scope and Assumptions

1. Barrier Well Extraction

Operational costs for pumping (power, maintenance, and labor) are included in the financial assurance. Routine replacement/rebuild of pumps and motors is included in maintenance costs.

A number of options are available for managing the extracted barrier well water, as described in the ESD to be issued in December 2006. For purposes of the financial assurance, it is assumed that as long as barrier well water meets or can readily be blended to meet secondary water quality standards, the water is provided for secondary use without treatment and is delivered to a point near the extraction wells. Under this scenario, it is assumed that the water is sold at a rate that offsets pumping costs but does

not exceed wholesale municipal water rates for the pressure zone of extraction wells. Estimated revenues from water sales are reflected as a credit in the cash-flow model.

2. Acid Well Extraction

Operational costs (power, maintenance, and labor) for pumping and transmission of extracted acid well water to the tailings pipeline or a treatment plant are included in the financial assurance. Routine replacement/rebuild of pumps and motors is included in maintenance costs. Pumping cost estimates are based on the minimum extraction rate for acid plume extraction as set in EPA decision documents.

3. Acid Plume Water Treatment

During operation of the mine and mill, OM&R costs for acid plume water treatment are negligible due to management of the water in KUCC's tailings disposal system.

At closure, it will be necessary to replace part or all of the acid plume water treatment facilities. Cash flow for replacement construction is shown in the cash flow model in the year prior to closure. Operating and maintenance costs for acid plume water treatment are included in the cash-flow model in the post-closure time period. OM&R cost estimates are based on a treatment rate which is equivalent to the minimum extraction rate for acid plume groundwater as set in EPA decision documents.

If the treated acid plume water can viably be used or sold for secondary or other appropriate uses, estimated revenues from such water sales will be reflected as a credit in the cash-flow model.

4. Acid Plume Sludge Handling and Disposal

During operation of the mine and mill, OM&R costs for acid plume treatment sludge handling and disposal are negligible due to co-deposition of sludge in KUCC's tailings impoundment.

At closure, it will be necessary to construct replacement sludge handling and disposal facilities. Cash flow for replacement construction is shown in the cash flow model in the year prior to closure. Operating and maintenance costs for sludge handling and disposal are included in the cash-flow model in the post-closure time period.

5. Monitoring and Reporting

Monitoring costs include estimated expenditures for water quality sampling and water level measurements, laboratory analysis, data management, and report preparation. Monitoring costs are based on the number, frequency, and analytical parameters for required monitoring only (i.e. Compliance Wells and Extraction Wells only).