

**ALASKA STATE LEGISLATURE
JOINT MEETING
SENATE RESOURCES STANDING COMMITTEE
HOUSE RESOURCES STANDING COMMITTEE**

February 26, 2002
12:10 p.m.

SENATE MEMBERS PRESENT

Senator John Torgerson, Chair
Senator Gary Wilken, Vice Chair
Senator Ben Stevens
Senator Robin Taylor
Senator Ben Stevens
Senator Georgianna Lincoln

SENATE MEMBERS ABSENT

Senator Rick Halford
Senator Kim Elton

HOUSE MEMBERS PRESENT

Representative Drew Scalzi, Co-Chair
Representative Beverly Masek, Co-Chair
Representative Hugh Fate, Vice Chair
Representative Joe Green
Representative Lisa McGuire
Representative Gary Stevens
Representative Mary Kapsner
Representative Beth Kerttula

HOUSE MEMBERS ABSENT

Representative Mike Chenault

OTHER LEGISLATORS PRESENT

Senator Lyman Hoffman
Senator Loren Leman
Representative Peggy Wilson
Representative Carl Moses

COMMITTEE CALENDAR

MINING INDUSTRY OVERVIEW

WITNESS REGISTER

Mr. Steve Borell
Alaska Miners Association
3305 Arctic Boulevard, Number 202
Anchorage, Alaska 99503

Mr. Tom Irwin
True North Property
Juneau, Alaska

Ms. Charlotte MacCay, Senior Administrator
Environmental and Regulatory Affairs
Red Dog Operations

Mr. Keith Marshall, General Manager
Greens Creek
Juneau, Alaska

Mr. Steve Dento
Usibelli Coal Mine
Healy, Alaska 99743

Mr. Karl Hanneman
Alaska Regional Manager
Teck-Pogo, Inc.

Mr. Don Artesinger, Vice President
Coeur Alaska
Kensington Mine Project

Mr. Bill Ellis
Alaska Earth Sciences, Inc.
Denali Block Project

Mr. Greg Johnson, Vice President
NovaGold Resources Inc.
Donlin Creek

ACTION NARRATIVE

TAPE 02-4, SIDE A [SENATE RES TAPE]

CHAIRMAN JOHN TORGERSON called the joint meeting of the Senate Resources Standing Committee and the House Resources Standing Committee to order at 12:10 p.m.

MINING INDUSTRY OVERVIEW

CHAIRMAN TORGERSON announced that members would hear the second annual mining industry briefing.

MR. STEVE BORELL, Alaska Miners Association, said that low metal prices have been the primary driving force for most of the mines and exploration projects in the state. Many of the small family mines have been idle due to low prices, especially for gold. However, at the same time, there has been both new and expanded interest in three exploration areas. First, platinum group metals have received significant interest. One of them is the Denali Highway Block Platinum Project. Another project north of Nome, called Kougarak, is focusing on tantalum, a metal used increasingly in electronic applications. He is aware of at least three companies that are looking for diamonds in Alaska and explained that most geologists say that diamonds don't grow in Alaska, but that 50 years ago they hadn't found diamonds in the Northwest Territories; however, by the year 2004 they are projected to outstrip South Africa as the third-largest diamond producer in the world.

CHAIRMAN TORGERSON thanked him for his comments.

MR. TOM IRWIN, True North Property, had a ten-minute PowerPoint presentation describing the development of the Fort Knox project. He said that 16 Alaskan companies worked on the access road and 11 Alaskan companies worked on the bridge, while 22 Alaskan companies worked in their shop in Juneau. He said the project continues to perform exceptionally well, moving 70,000 - 90,000 tons of ore per day, continuing to set daily and yearly records. Last year they [processed] 411,000 ounces of gold, with an exceptional safety and environmental record. He said they are the number-one steady taxpayer in the Fairbanks North Star Borough, at \$3.7 million, and their employees add another \$0.3 million. His company is working on finding more ore and will be investing about \$3 million this year for exploration. In addition, they are looking at using their granite as a gravel product.

SENATOR LINCOLN asked what percentage of their employees and companies are Alaskan.

MR. IRWIN replied that they are at 91 percent local hire.

SENATOR LINCOLN asked if they are saving the topsoil for reclamation.

MR. IRWIN said yes, they put it in a separate pile so it's accessible.

CHAIRMAN TORGERSON thanked Mr. Irwin for his presentation.

MS. CHARLOTTE MacCAY, Senior Administrator for Environmental and Regulatory Affairs, Red Dog Operations, said in July 2001, Cominco Alaska Ltd. and Tech Resources merged, and so Red Dog is now operated by Teck Cominco Alaska. The merger caused some changes in the corporate structure, but there are not many impacts at the operation-management level. Teck Cominco also owns the Pogo project. She said their general manager, John Key (ph), moved on to Minnesota to open up a new mine. His replacement is Bob Jacko (ph), who has extensive experience with Teck Cominco and arctic mines, including being general manager of the Polaris Mine located north of Baffin Island.

MS. MacCAY said zinc and all metal prices have been down for 2001, with zinc averaging \$0.35 per pound, a 29-percent decrease over 2000 prices. This resulted in the loss of \$13 million in the fourth quarter of 2001. Their projected losses for 2002 will be \$30 million. There is some indication that prices should begin to recover very late in 2002. The stockpiles are going down, and the need for the metal should start bringing prices back up.

MS. MacCAY reported that during the past couple of years, Teck Cominco completed two projects increasing their recovery rate and the quality of their product. They continue to have some ore complexities that need to be addressed, since the ore changes in different parts of the pit, but anticipate meeting their goal of 1.1 million tons of concentrate. In 2002 they will focus on improving their current facilities to become the best in production, safety, and environmental performance. Projects such as the port modification to facilitate the direct loading of vessels through dredging and creating a new port are under reconsideration; finances associated with them are difficult to find at this time.

MS. MacCAY said they are continuing to evaluate the development of natural gas as a replacement for the diesel they use at Red Dog, about 15 million gallons of diesel per year. They have found methane within the shale around the deposit and believe they can find enough of a deposit to replace the diesel fuel for the powerhouse. They still have to evaluate whether that gas will flow, and need a different kind of drilling test to determine whether the gas will come out of the fracture in the shale and be usable. If they can do that, there are some cost benefits, although they are marginal. The biggest benefit is environmental, cutting air emissions approximately in half.

MS. MacCAY noted that environmental activity in 2002 is expected to continue in the form of studying and addressing dust impacts along the road and at the port site. Studies have shown that the

berries in the area are safe for human consumption, but they continue to work on dust containment, especially source reduction, and will spend another \$8 million - \$10 million there. She noted they had already spent \$4 million in this area.

MS. MacCAY said Teck Cominco will be developing a revised reclamation plan, since the mine has a long life and they want to keep up with the times. They are working on getting the waste permit that extends to the tailings impoundment. When Red Dog was originally permitted, solid waste regulations were not in place. She said:

Despite the economic hardships, Red Dog still remains the world's largest zinc mine, with a life of at least 40 years. We are doing no exploration activity in 2002 at all. However, there is still a lot of potential in the area, and as soon as the financial situation improves, we anticipate exploration will pick back up.

MS. MacCAY said they are working to bring more and more NANA-related businesses to work as support services at Red Dog. In closing, she said:

Being "the world's largest zinc mine" is often quoted, and it's a somewhat impressive phrase, but both Teck Cominco and NANA believe that our commitment to the local community and our successful partnership with the Native corporation is an accomplishment that speaks louder and has greater meaning.

12:25 p.m.

MR. KEITH MARSHALL, General Manager, Greens Creek Mine, showed an operational and project overview. He said they had a record production in 2001 of 650,000 tons: 12 percent zinc, 5 percent lead, 22 percent silver, and 0.2 percent gold. They had record low operating costs of \$75 per ton and a loss of \$3.7 million. They were producing as well as they could, but the metal prices impacted their revenues by \$9.3 million, a 12-percent drop over the year.

MR. MARSHALL said they increased production and had to increase the capacity of their mill, a project that was finished in the first quarter of this year and cost \$6 million. They installed a 5-megawatt turbine because with more throughput, they needed more power; that cost \$5 million. One of the benefits of the turbine is that they will reduce their overall noxious emissions from the operation by 25 - 35 percent, 20 percent more than the manufacturers predicted.

MR. MARSHALL said the final project for the year is their tailings expansion of about 20 percent. He said they have a total of \$21 million in projects going on. In 2001 they finalized their solid waste permit with the state, and they are in the process of securing a \$24-million reclamation bond. He pointed out that Greens Creek has the smallest footprint of any of the operating mines in Alaska. The company thinks that reclamation is their responsibility and that the bond level is correct. Mr. Marshall thanked members for the opportunity to talk to them.

CHAIRMAN TORGERSON thanked him for coming and announced that Steve Denton would give an overview for Usibelli Coal Mine.

MR. STEVE DENTON, General Manager, Usibelli Coal Mine, said he wanted to talk a little about the regulatory and market environments they are in. He showed the committee photos of their operations. The preliminary drilling results of their new Poker Flat lease indicate they wouldn't have to move a lot of dirt to get to the coal. He praised the Division of Mining, Land and Water for doing an excellent job with permitting and regulation. They don't see "storm clouds on the horizon" in terms of environmental regulation, but he "wakes up in a cold sweat sometimes" about some things going at the federal level. He said:

I hope the legislature would kind of keep an eye on that and give DEC [Department of Environmental Conservation] the support they need because, quite frankly, they are going to be in some battles with the federal regulators - try to protect their primacy as a state agency, and their ability to govern and manage the state's resources, in the way that's better for us but not necessarily what's good for the rest of the country. I think DEC is going to need some help here in the future.

MR. DENTON said there were concerns lately about their export market and remarked, "We have been here before." He said they have been at the eleventh hour, shipping the last of the coal from the existing contract, and don't have a continuation in hand. He told members:

The simple fact is that coal prices right now are taking another plunge. The Chinese are dumping coal on the market right now. The prices are going down, and we can't compete with that kind of a situation. We are still talking with the Koreans, trying to get an extension on the contract. We have four - five more months of shipments remaining on existing contract.

MR. DENTON said it is a very challenging market at the moment; prices are almost at their all-time low - \$1.25 m/Btu - a price that pretty much drove everyone out of business in 1999. Then the price started going up when everyone dropped out. He said:

I want to put the export coal market and the domestic market in a proper perspective. The United States right now is a net importer of coal. I'm not sure people are aware of that. We exported approximately 13.2 million tons of coal last year. Usibelli has exported about 5 - 6 percent of that. So we are a big part of the U.S. steam coal export market. That's not to say that Usibelli is a big part of the coal business. It's just that the export market for the United States is very low.

By comparison, we imported 24.1 million tons, or about 11 millions more than we exported. The total U.S. production is over 1 billion tons now. The message I would like to leave with you, I guess, is the one that's embodied in this other handout, and that is, there is a good reason why the United States burns so much coal: because we have a lot of it, and it's the cheapest way to make electricity.

MR. DENTON showed a chart illustrating that point. He said that the new intertie that Golden Valley is building runs right by their property, and he said the legislature would hear more from them in the future about promoting a power station that would provide power for the entire Railbelt. He said this power would work in the rural areas, also, delivering the power by wire. He added, "It's clean, it's efficient and it will get you low-cost energy."

SENATOR TAYLOR asked him about the Healy Clean Coal project.

MR. DENTON replied that they are mostly observers and that there are a lot of hurdles still to come. The Trustees for Alaska have submitted 27 pages of comments, and there are some very difficult things to deal with from the standpoint of re-permitting the project.

REPRESENTATIVE FATE asked if he was interested in any coal-bed methane exploration.

MR. DENTON replied, "Yes, the coal that we have in the Healy area is pretty low methane. I'm not sure what the potential for it is."

MR. KARL HANNEMAN, Alaska Regional Manager, Teck-Pogo, Inc., said the Pogo project expects to be the next major mine in Alaska. Pogo is about 40 miles northeast of Delta Junction and has a gold resource of 5.6 million ounces located on state land about 50 miles from existing infrastructure. The key issues for their development are to ensure the integrity of the Good Pasture River, which flows nearby, and the management and mitigation of access to the project. Their joint-venture partners, Sumitomo, discovered the deposit in 1994. Teck-Pogo negotiated and earned a 40-percent share in 1997, and in 1999 they started underground exploration of the deposit. They spent about \$70 million on the project, and they hope to build an underground mine of about 2,500 tons per day, approximately the same size as Greens Creek, for \$250 million in capital costs and with an annual production of about 400,000 ounces a year or \$125 million in revenue. He said it would take 500 employees a couple of years to build the mine, and they are projecting a 12-year mine life, based on existing research.

MR. HANNEMAN reiterated that one of their key issues is management of access. They have finalized their mill design and are about to finish the feasibility study; they recently resubmitted some documents to the agencies for their review and are engaged in the EIS and permitting process with federal and state agencies. He said that to make the project a reality, they need the road and power line to be permitted; they need a reasonable waste water discharge system to be permitted; they need a stable tax policy in the context of the mandated borough formation; they need a schedule that allows them to meet this next winter's road season, so they can use the winter road; and they need to pull all this together in the final feasibility study to demonstrate the project economics.

CHAIRMAN TORGERSON asked what the status was of the road permit.

MR. HANNEMAN replied that they have not yet officially applied. As part of the EIS process, they were asked to get a little further into the alternative valuation process before they actually made a permit application.

SENATOR TAYLOR asked if there was some interest in shipping the bulk product into Fort Knox for processing.

MR. HANNEMAN replied that they had looked at that conceptually earlier, but the ore types are quite different, and the milling processes in terms of the grinding size and the retention time needed to recover the gold are different. The economics of hauling it that far are not good, so it's not something that they think is viable.

CHAIRMAN TORGERSON quipped that they should wait a little while

and they'd have a railroad. He then thanked him for his comments.

MR. DON ARTESINGER, Vice President, Coeur Alaska, said that Coeur has been operating in Alaska since 1997, as a subsidiary of Coeur d'Alene Mines [Corporation], working on the proposed redevelopment of the Kensington project.

TAPE 02-4, SIDE B

MR. ARTESINGER pointed out on a map that an area 45 miles past the end of the Juneau road system was known as the Juneau Gold Belt, and at one time about seven mines operated in that area. The Kensington operated off and on until 1935. He said the project has been permitted twice in the past, but he has only worked with the one site, which has many challenges including high precipitation, some seismic activity, and avalanches. Most important is the concern of how to deal with tailings economically with low gold prices.

MR. ARTESINGER said the scenario is to build a 2.5-mile road from the end of Glacier Highway, past a point where the property is owned by Goldbelt Incorporated [Native corporation], with whom they have a lease agreement. The existing road was just made an R.S. 2477 last month and is now state public right-of-way, and it is about 5.5 miles long. They would build a 6,500-foot tunnel through to reach the (indisc), and instead of dealing with the tailings on one side of the project, they would build a pipeline and deposit them in Slate Lake, which is not an anadromous lake and is about 70 feet deep. This would substantially lower the cost of the tailings project, from \$2.50 a ton to about \$.30 a ton. They would have a containment dam and go through a reclamation process at the end that has environmental enhancements.

MR. ARTESINGER said that aside from port facilities, the revised footprint is much smaller and there is a much smaller power requirement, reducing capital costs from about \$211 million to about \$155 million. From the standpoint of local economics, this project would take about two years to build and 325 construction workers. Coeur has in place local-hire and training commitments, both locally to Southeast as well as to the Native corporations, with sustained employment of about 225 jobs or a payroll of \$16 million per year. The tax base of the City and Borough of Juneau would also benefit. This project has to be re-permitted for the third time by the City and Borough of Juneau. This work is ongoing now, and the company has \$120 million already invested. They will go ahead with the supplemental environmental impact statement (EIS) to position this project for an investment decision if gold prices, which have increased recently, can be sustained in the neighborhood of above \$320 an ounce. Now the

price is around \$298.

SENATOR TAYLOR asked why the road hadn't been built out to Cascade Point yet.

MR. ARTESINGER replied that the road had been permitted and Goldbelt, the owner, holds the permits, but they haven't been willing to make that kind of investment. Coeur hasn't either, until they know the mine is ready to go forward.

CHAIRMAN TORGERSON thanked him and announced the Denali Highway Block project would be presented by Bill Ellis of Alaska Earth Sciences.

MR. BILL ELLIS, Alaska Earth Sciences, said he is a consultant geologist and has explored this part of the state since the early 1990s. He said the Denali Block has become a very intriguing platinum project. Platinum is now recognized as the green metal, because of its unique catalytic properties and its importance in the development of fuel cell technology. He said:

They truly have a unique position in the world economy, and because of their industrial and environmental uses, they will be the metal of the new millennium.... Prices of platinum have significantly increased in the last year or so, and they are considerably higher than gold.

Essentially, platinum group metals are very rare in the world. Economic concentrations are only in a couple dozen major deposits in the entire world. These occur in a specific geologic environment that consists of rocks that come directly from the mantle. The vast majority of the world's platinum comes from southern Africa at 68 percent, Russia at 12 percent, and only 8 percent from North America. So, it's coming from a very unstable area, in my mind.

MR. ELLIS showed a picture of the Denali Block that is between Anchorage and Fairbanks. In 1992 there were about 30 claims in the area - approximately 175 square miles - and by 1999 there were over 3,000 claims controlled by essentially three exploration groups, the largest being M.A.N. Resources [Northridge Exploration and Fort Knox are the other two]. Explaining his map to the committee, he said there are over 1,200 state-selected claims in the Denali Block.

MR. GREG JOHNSON, Vice President, NovaGold Resources Inc., said they started up in 1998 and are a U.S.-based company focused in Alaska. They believe Alaska is a great place to do exploration.

In 1999 they acquired the Alaska Gold Company, the historic operating company that mined the Nome and Fairbanks goldfields with bucket-lined dredges. They have been building the business, making their money in the Seward Peninsula's Nome area, and are now the largest producer of sand and gravel in Western Alaska, shipping material down to the Aleutians and many villages up and down the coast. They are enthusiastic that they are going to be able to expand that business and want to become the major sand-and-gravel suppliers for the whole Pacific Rim. They are very excited about the port expansion project going on at Nome this year. They are talking with the state about the next expansion of that project.

MR. JOHNSON said they are very excited about their Donlin Creek Project, having just picked it up in a joint venture with Placer Dome, which has been working on the project for the last six years. Because of the low gold price, Placer Dome had made the strategic decision that they were going to focus their efforts on their existing lines, cut back on their exploration, and "joint venture out" their higher-risk projects.

MR. JOHNSON said NovaGold's strategy is to go in and focus on the higher-grade, smaller operations, and they had tremendous success last year. He showed the committee an overview photo of the project. They are looking at a Fort Knox scale of around 400,000 ounces of gold per year. The grade is five times as high as at Fort Knox, but it takes additional processing requiring more infrastructure and energy. In addition, the area is remote, since they are up the Kuskokwim River from Bethel and Akiak.

MR. JOHNSON explained that the land is owned by Calista Corporation and that Kuskokwim Corporation owns the surface rights. There is an existing winter-access road to the 42-square-mile project. They are looking at three different access routes, and the preferred route is on Calista land, although they are working with the corporation's desires. He said:

The whole key with making this project happen is making it synergize with what the long-term regional development plans are for the region. The project cannot fly 100 percent on its own in terms of the infrastructure and everything that needs to come in for roads and power. So, it has to fit in the longer-term vision of what the region needs.

MR. JOHNSON reported that the total lower-grade resource is now almost 23 million ounces and that there is 10.6 million ounces of the higher grade, with a production rate of 400 ounces per year. Construction costs for a smaller-scale project, focused on high-grade ore, are a \$300-million to \$500-million investment.

Operating costs would be \$50 million to \$80 million per year, with 500 to 600 full-time employees. There could be 25 or more years of production, with the opportunity for discovery of additional deposits being very high. The project is supported by Calista and Kuskokwim, whose shareholders are hired - 75 percent local hire this year. They have almost no turnover so far and have a great workforce.

MR. JOHNSON said the project has significant challenges and requires creative engineering. They are working with a group called MRDI, located in Vancouver, British Columbia, that has done a lot of the engineering work at Red Dog Pogo and has put 40 other mines in production in the Arctic. Working with their partner, Placer Dome, they are trying to come up with a creative solution that makes this project move forward. In 2001 they completed 24,000 feet of core drilling costing \$3 million, bringing the total investment in the project so far to \$40 million.

MR. JOHNSON said NovaGold has completed the resource estimate and is working on an economic scoping study. They are setting up a campus this week and plan to begin a \$7-million program to do additional drilling to define the resource and get a better handle on total size and grade of the system. They are going to try to do some test mining this year and to continue environmental and baseline studies that they started with Placer Dome, as well as metallurgy testing and engineering design. He said they have six years of baseline work already and hope to begin the feasibility study sometime in 2002 or 2003, and begin final permitting in 2003 or 2004. They are hoping, with a rising gold price, for a 2005 project.

SENATOR WILKEN asked if this was open-pit or belowground mining, and where they would get the power for that size of a mine.

MR. JOHNSON replied that they would start out open-pit, but long-term there is a lot very high-grade material, so they would go underground. It would be very much a Fort Knox-scale operation. Their operation is looking at starting small, at 8,000 tons per day, and scaling up to 20,000 tons per day to get the high grade. With that concept in mind, they would start with local power generation onsite or in Cripple Creek. This would be the start of a regional power grid, potentially with the mine being the main starting customer. As they scale up, they would have to generate additional power. About 25 megawatts would be required in the beginning, and within three to ten years they would scale up to 50 - 75 megawatts.

SENATOR WILKEN asked what energy would be used.

MR. JOHNSON said they are looking at all the options, but right

now they are leaning towards onsite diesel. They are open to possibilities.

CHAIRMAN TORGERSON thanked them all for coming down and said this meeting had been very informative.

ADJOURNMENT

There being no further business before the committees, the joint meeting of the Senate Resources Standing Committee and the House Resources Standing Committee was adjourned at 1:22 p.m.