

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

February 19, 2003

1:10 p.m.

MEMBERS PRESENT

SENATE RESOURCES

Senator Scott Ogan, Chair
Senator Ralph Seekins
Senator Ben Stevens
Senator Georgianna Lincoln

HOUSE RESOURCES

Representative Mike Chenault, Co-Chair
Representative Hugh Fate, Co-Chair
Representative Bob Lynn
Representative Kelly Wolf
Representative David Guttenberg
Representative Beth Kerttula

MEMBERS ABSENT

SENATE RESOURCES

Senator Thomas Wagoner, Vice Chair
Senator Fred Dyson
Senator Kim Elton

HOUSE RESOURCES

Representative Beverly Masek, Vice Chair
Representative Carl Gatto
Representative Cheryll Heinze

COMMITTEE CALENDAR

MINING INDUSTRY OVERVIEW

TAPES - 03-5, 03-6, SIDE(S) A & B [SENATE RES TAPE]

SUMMARY OF INFORMATION

CO-CHAIR SCOTT OGAN convened the joint meeting of the Senate Resources Standing Committee and the House Resources Standing Committee at 1:10 p.m. Present at the call to order were Senators Lincoln, Stevens and Co-Chair Ogan, and Representatives Guttenberg, Wolf, Lynn, Morgan and Co-Chairs Chenault and Fate. Senators Olson and Hoffman joined the committee while the meeting was in progress.

MR. STEVE BORELL, Executive Director of the Alaska Miners Association, applauded the Governor's focus on mineral development and the construction of new roads. He stated that streamlining the oil and gas permit process will also benefit the mining industry.

MR. BORELL reviewed changes made on the national level during the last year. The U.S. Department of Interior will institute a new procedure regarding recordable disclaimers of interest. This change will result in a significant cost reduction to the state by avoiding adjudication in federal court.

MR. BORELL said the big issue for the mining industry at this time is the price of metals. The price of zinc is very low; the price of gold is volatile. Small operators are struggling but junior exploration companies are showing increased interest in Alaska. The Fraser Institute Report has shown that Alaska falls in the middle of the pack regarding the industry's perception of Alaska's friendliness toward mining.

MS. CHARLOTTE MacCAY, Senior Administrator of Environmental Affairs for Tech-Cominco, gave a PowerPoint presentation on the operations of the Red Dog Mine. She pointed out that zinc is at its lowest price since the Great Depression and, although the Red Dog Mine is losing money, it will weather the low price. She stressed the economic benefits of the mine to the NANA Region and NANA shareholders, and its state-of-the-art, high environmental standards. The Red Dog Mine is leading the industry in "fugitive dust control" and fish are populating local streams for the first time as the water quality is better now than it was prior to the development of the mine. She reviewed the mine's efforts to convert power generation at the mine from diesel fuel to natural gas using a privately owned source of natural gas located on NANA land. She noted that the existing gas regulations were not written for this type of project and may need to be expanded.

CO-CHAIR FATE announced that Senator Olson was present and called Rich Heig to present to the committee.

MR. RICH HEIG, general manager of the Greens Creek Mine, gave a PowerPoint presentation on the status of operations at the Greens Creek Mine on Admiralty Island in Southeast Alaska [a copy of the PowerPoint presentation and a handout he provided are in the Senate Resources Committee file]. Mr. Heig described the location, history and operations of the Greens Creek Mine. Since 1995, the mine has increased production of three types of concentrates from 1350 tons per day to 2000 tons per day while reducing costs every year to remain competitive. Greens Creek prefers to hire locally; about 85 percent of its 260 employees are Alaska residents. Greens Creek is the largest private sector employer in the Juneau area. The mine footprint is very small - 327 acres, and it spends \$2 million annually on its environmental budget. The future life of the Greens Creek Mine is 10 years. It has an aggressive exploration plan this year.

MR. HEIG described the conclusions of a McDowell Group survey of 200 Juneau households: 78 percent felt mining is very important to the Juneau economy; 77 percent felt mining has a positive impact. In addition, 61 percent felt Greens Creek does a good job environmentally, 7 percent felt the opposite, and 32 percent did not know. He then discussed the economic benefits of the mine to Juneau.

MR. RICK DYE, Fairbanks Gold Mining, gave a PowerPoint presentation to committee members [a copy is on file with the Senate Resources Committee]. He described the ownership pattern of Fort Knox, which is currently operated by Kinross Gold. Its current production is 2 million ounces per year, primarily from locations in North America. Most of its exploration is focused around its core assets.

The operating issues at the Fort Knox Mine include metal price, grade, and reserves. Fort Knox has a low-grade deposit, which is one reason a high-grade deposit like True North is so important to Kinross Gold's operation. The Fort Knox mine life projection is to 2008. Reclamation will begin at True North in 2004. In 2008, milling will begin on a stockpile, with no additional expansion of reserves. Kinross Gold plans to do major exploration in the Fort Knox area. With no more reserves, Kinross Gold will have a window of five years in which to add to current reserves. The Fort Knox payroll is about \$21 million per year, plus 35 percent in benefits. Fort Knox spends about \$52 million per year locally, of which about \$15 million is on power. Fort Knox's power factor translates into a \$3.7 million savings to local Golden Valley Electric Association members. The

Fort Knox mine employs about 1.5 percent of the borough's population and pays about 9 percent of borough taxes.

CO-CHAIR FATE acknowledged the presence of Representative Kerttula.

MR. DYE said Alaska hire is about 90 percent but that percentage has diminished a little over the past few years while Fort Knox went through a major expansion. The mine has had difficulty finding enough skilled diesel mechanics and electrical mechanics in Alaska. It is working closely with the vocational schools in Fairbanks and Seward to recruit. He noted the mine encourages out-of-state employees to become Alaska residents.

TAPE 03-5, SIDE B

MR. KEITH WALTER, general manager of Usibelli Coal Mine, gave a PowerPoint presentation [a copy is in the Senate Resources Committee file]. Mr. Walter reviewed the history of the mine since 1917, and told members Usibelli started doing reclamation work in 1971, about 7 years before reclamation was required by law. After producing 1.5 million tons for 17 years, Usibelli is now producing 900,000 tons due to a loss of sales to South Korea. Usibelli has five permitted mines; two are on the decline. The three active permitted areas contain about 60 million tons of coal. It has four different customers in six different sites: Fort Wainwright, Eielsen Air Force Base, Clear Air Force Base, Aurora Energy, the University of Alaska, and Golden Valley at Healy. Usibelli is now moving into a new 25-acre site that contains 40 million tons of reserves. He discussed the Suntrana formation and the Jumbo Dome leases. Usibelli wants to educate the public on the benefits of using coal to generate electricity. Coal generates 56 percent of all electricity in the United States.

SENATOR LINCOLN asked what the state can do to help Usibelli.

MR. WALTER said an expedited permitting process for the Jumbo Dome and Emmett Creek areas would help. If the permitting takes 10 or 15 years, many families will leave the Healy area.

CO-CHAIR FATE asked about the future of the clean coal project.

MR. WALTER said at this time the Alaska Industrial Development & Export Authority (AIDEA) and the Golden Valley Electric Association are trying to figure out how to finance the project.

He explained the coal is sub-bituminous, very low sulfur, and produces about 7800 BTU per pound.

SENATOR LINCOLN asked if Usibelli has explored how coal might be used at the missile defense site.

MR. WALTER said that Usibelli can sell more coal to the Golden Valley Electric Association.

CO-CHAIR FATE then announced the next presentation would be about the Pogo project.

KARL HANNEMAN, Teck-Pogo, Inc., told members he has the exciting project of developing what will be the next major mine in Alaska, the Pogo Project. He gave a PowerPoint presentation [a copy is located in the Senate Resources Committee file]. Pogo has a 5 million ounce resource located on state land. Its key issues for development are to ensure the integrity of the Goodpaster River and management and mitigation of the all-season access road. He reviewed the history of the mine's ownership and development. The underground mine will require a capital cost of \$250 million; Teck-Cominco has invested \$78 million so far. The project will require 500 employees to construct and 300 to operate. Teck-Cominco is engaged in the Environmental Impact Study and permit process now. Teck-Cominco has begun a regional workforce development and training program in Delta Junction. Access is a challenge; Teck-Cominco proposes to use the Goodpaster winter trail to bring supplies and equipment to the site. To make the project a reality, the road, wastewater discharge, and power line need to be permitted. It will also need a stable tax policy and a schedule to make this happen and a positive final feasibility study to confirm the economics based on the permit conditions imposed.

MR. HANNEMAN pointed out that Teck-Cominco appreciates the support it has heard for construction of new roads in Alaska. It is proposing a private-industrial right-of-way in which the company will pay for all construction, maintenance and closure of the road but the road will not be open to the public in order to reduce safety, liability, environmental and subsistence issues. Teck-Cominco would propose limited commercial use of the road. It has proposed posting a bond for the road and power line reclamation at the end of the project. Teck-Cominco believes this road management solution will provide major benefits to the state.

TAPE 03-6, SIDE A

SENATOR LINCOLN said no one is opposed to streamlining the permitting process, especially if it benefits Alaska businesses. She asked Mr. Hanneman if Alaska made every change possible to streamline the process, how much of the problem would lie with the federal permitting process, using the Pogo project as an example.

MR. HANNEMAN said the EIS process is proceeding with a cooperative agreement between the EPA, Corps of Engineers, DNR, and the Coast Guard (because of the bridge). Under that agreement, it is the federal NEPA process that is driving the timeline. The state has been quite professional and supportive in working with the federal agencies to try to move things in a timely manner. However, the scientific standard of review required under NEPA is substantial.

REPRESENTATIVE KERTTULA asked Mr. Hanneman to suggest three changes to the process that would be helpful.

MR. HANNEMAN said clear coordination of state review is a very "doable" task. A procedure for issue resolution within the NEPA review itself, where various agencies comment on the drafts, would be helpful. He suggested the state might be able to work with the federal agencies to set up a schedule of review. The bottom line is that the courts require the federal agencies to take a hard look at issues no matter when those issues are raised during the process.

2:30 p.m.

MR. RICK RICHENS gave a PowerPoint presentation on the Kensington mine north of Juneau. Coeur D'Alene Mines is the world's largest silver producer; the Kensington mine is its only major gold asset. He reviewed the history of mining in the area of the Kensington mine. The mine is located in an area typical of Southeast with steep topography and high precipitation. He has found that many of the federal permitting programs do not take into account the unique environmental conditions of Southeast Alaska, such as an annual rainfall of 100 inches. The Kensington mine is located adjacent to Jualin land, which consists of 5,000 acres of patented and unpatented mining claims. It is also adjacent to land owned by Goldbelt, which has started to figure into the Kensington project plan. The project was permitted in 1998, but was determined to be uneconomical. It entered into an optimization program with the goal of trying to

significantly reduce capital and operating costs. Coeur D'Alene decided to go with a proposal that would link the Jualin and Kensington properties via a 6500-foot tunnel. The project was downsized and made more efficient. The Kensington mine will employ 350 people during construction and 225 during operations. The size of the overall footprint of the project has been reduced to 150 acres and wetlands impact was reduced significantly. Coeur D'Alene Mines entered into agreements with Goldbelt, Klukwan, and Kake Tribal to provide Native hire preference and training. It has filed a new plan of operations with the U.S. Forest Service, which triggered an EIS. It has filed all major federal permit applications and is working on state permits.

REPRESENTATIVE KERTTULA asked the status of the issues surrounding the lake.

MR. RICHENS said that Coeur D'Alene Mines has filed a water discharge permit application with the EPA and is in an iterative process whereby it provides its scientific findings through a series of workshops and EPA comes back with questions. He understands that if Coeur D'Alene Mines can demonstrate that this project is better environmentally than permitted projects, the EPA will issue a water discharge permit. Regarding a prior question about three wishes, he said he would like to see more predictability in the permitting process. Coeur D'Alene is now trying to get a memorandum of agreement between the state and federal agencies that would definitively spell out review time frames.

REPRESENTATIVE KERTTULA asked if the issue is not necessarily the outcome as much as predictability regarding the timeframe.

MR. RICHENS said that is correct. He said they are not asking that the outcome be pre-judged, but that the process has some sideboards built around it. He noted that regarding the issue of state primacy of NPDES, he has seen that work very well in other states.

MR. RICK VAN NIEUWENHUYSE, President of NovaGold, gave a PowerPoint presentation [a copy is located in the Senate Resources Committee file]. Its main activities in Alaska are in Donlin Creek, around Nome at Rock Creek and the Nome Gold project. The Donlin Creek project is a partnership between NovaGold Placer Dome and Chulista and the TKC. Chulista owns the subsurface rights, TKC owns the surface rights. So far, \$48 million has been spent on the project, primarily on exploration.

It has switched tracks and is now focusing on development. Two issues need to be resolved. The first is access. The mine is located about 18 miles from the Kuskokwim River so an access road will need to be built. Second, two barge trips per day would be required to deliver the amount of fuel needed to operate the mine. That plan is feasible but has risks. A temporary lay down area at the barge site could be constructed and an access road could run from Crooked Creek to the site of Donlin Creek. A pre-feasibility study should be completed by August of this year followed by: feasibility and environmental studies for the next two years; financing and arranging final permits for one year; and a construction period of two years. The Donlin Creek sulfide ores will require an autoclave unit for extraction. Power consumption will be high, which is the big issue for the project. The mine will provide 500 to 600 construction jobs and 450 to 550 jobs during operations. NovaGold has placed a lot of emphasis on shareholder hire, primarily from the upper villages on the Kuskokwim River.

MR. ROB PEASE, General Manager of Placer Dome, told members that Placer Dome has been involved in the Donlin Creek project since 1995. Donlin Creek is a very, very large project. It is the single largest capital project that Placer Dome has ever endeavored. This project is in a remote location and cannot be developed as a stand alone mine; it will require a joint venture of companies and all of the stakeholders in Alaska to make it work.

MR. CURT FREEMAN, President of Avalon Development Corporation, gave a PowerPoint presentation entitled "Perception is Reality, A View from Outside Alaska." [A copy is located in the Senate Resources Committee file.] He explained Alaska's positive aspects: its experienced labor force, abundant stable land, acceptable tax regime, pro-development government, and that it is highly under prospected. He noted that in many other parts of the world, the mining industry is encountering problems with aboriginal rights, an issue that was resolved in Alaska with the Alaska Native Claims Settlement Act. He showed graphs of the discovery rate of Alaska's gold resources, the drill footage, the cumulative gold resources, cost, and gold deposits ranked by size. He pointed out the downside of Alaska is that it does not have a mid-tier mining company in the state, it is highly under prospected due to a lack of infrastructure, the labor force is more expensive, the perception that Alaska is one giant wilderness area, and the fact that the pro-development government could change quickly. He expressed concern that there

is no recourse to frivolous lawsuits that are filed to slow an operation down.

TAPE 03-6, SIDE B

MR. FREEMAN cited the Fraser survey [www.fraserinstitute.ca], a survey by a Canadian think tank of companies to gauge the perceived investment attractiveness of given jurisdictions around the world. Alaska's rank dropped from seventh to twelfth, however it scored behind Russia, China, South Africa, Bolivia, Brazil and Peru. It has scored better in the past: last year it ranked seventh. He discussed the survey's conclusions and said that the perception is that: environmental and land use policies are major deterrents to mineral investment in Alaska; Alaska has built virtually no new roads or power facilities; and Alaska needs a rural hub for development that can grow. Others are not convinced of the stable nature of Alaska's land. In addition, the state and federal mine permitting processes need to be coordinated to a greater extent.

MR. FREEMAN said Alaska's biggest mistake is its underestimation of the competitions' ability to draw capital. When people feel it is safer to invest money in Russia, China or Indonesia than it is in Alaska, a lot of work needs to be done.

He suggested streamlining the permit process, eliminating the zero liability legal challenge, designing and building road and power facilities in centralized hubs, expanding airborne geophysical surveys, and regaining regulatory control of Alaska's waters and coastlines.

ANNOUNCEMENTS

There were no announcements.

COMMITTEE ACTION

The committees took no action.

ADJOURNMENT

CO-CHAIR FATE adjourned the meeting at 3:20 p.m.

NOTE: The meeting was recorded and handwritten log notes were taken. A copy of the tape(s) and log notes may be obtained by contacting the Senate Records Office at State Capitol, Room 3, Juneau, Alaska 99801 (mailing address), (907) 465-2870, and

after adjournment of the second session of the 23rd Alaska State Legislature this information may be obtained by contacting the Legislative Reference Library at (907) 465-3808.