ALASKA STATE LEGISLATURE
JOINT MEETING
HOUSE RESOURCES STANDING COMMITTEE
SENATE RESOURCES STANDING COMMITTEE
HOUSE SPECIAL COMMITTEE ON OIL AND GAS
August 22, 2005
1:21 p.m.

MEMBERS PRESENT

HOUSE RESOURCES

Representative Jay Ramras, Co-Chair
Representative Gabrielle LeDoux
Representative Kurt Olson
Representative Harry Crawford

SENATE RESOURCES

Senator Thomas Wagoner, Chair
Senator Ralph Seekins, Vice Chair
Senator Fred Dyson (via teleconference)
Senator Gretchen Guess

HOUSE OIL AND GAS

Representative Lesil McGuire
Representative Norman Rokeberg (via teleconference)
Representative Berta Gardner

MEMBERS ABSENT

HOUSE RESOURCES

Representative Ralph Samuels, Co-Chair
Representative Jim Elkins
Representative Carl Gatto
Representative Paul Seaton
Representative Mary Kapsner

SENATE RESOURCES

Senator Ben Stevens
Senator Bert Stedman
Senator Kim Elton

HOUSE OIL AND GAS

Representative Vic Kohring, Chair
Representative Nancy Dahlstrom
Representative Ralph Samuels
Representative Beth Kerttula

OTHER LEGISLATORS PRESENT

Representative Mike Chenault
Representative John Coghill
Representative John Harris
Representative Mike Kelly
Representative Bill Stoltze
Representative David Guttenberg
Senator Gene Therriault

COMMITTEE CALENDAR

UPDATE ON MINING OPERATIONS IN INTERIOR ALASKA

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

Presenters:

BOB LOEFFLER, Director
Division of Mining, Land, and Water
Department of Natural Resources

DAVID SZUMIGALA
DGGS Mineral Resource Projects and Products

JOHN WILD, Vice President/General Manager
Fort Knox Mine
[Due to technical difficulties the audio from Mr. Wild's testimony is not available.]

KARL HANNEMAN
Teck-Pogo Mine

STEVE BORELL, Executive Director
Alaska Miners Association

ACTION NARRATIVE

CO-CHAIR JAY RAMRAS called the joint meeting of the House Resources Standing Committee, the Senate Resources Standing Committee, and the House Special Committee on Oil and Gas to order at 1:21:23 PM. Representatives Ramras, LeDoux, Kelly, Olson, McGuire, Rokeberg (via teleconference), Stoltze, Chenault, Coghill, Harris, Guttenberg, Crawford, and Gardner and Senators Wagoner, Seekins, Dyson (via teleconference), Therriault, and Guess were present at the call to order. Co-Chair Ramras pointed out that former Representatives Bud Fate and Jeanette James and former Senator Pete Kelly were in attendance.

PASTOR PHILIP KUEHNERT, Zion Lutheran Church, gave the invocation, which was followed by the Pledge of Allegiance.

Update on Mining Operations in Interior Alaska

1:26:23 PM

CO-CHAIR RAMRAS announced that the only order of business would be the update on mining operations in Interior Alaska.

1:27:43 PM

BOB LOEFFLER, Director, Division of Mining, Land, and Water, Department of Natural Resources, began by first discussing the state's hard rock mines, which provide the most productivity, employment, and contribution to state government. Therefore, placer mines remain an important part of the state's history even in the present. Mr. Loeffler related that this has been a good year for exploration, which is what the state lives on in the future. Exploration is measured in dollars or reported exploration spending and the number of active claims. He then showed the committees a graph of exploration dollars, which related that last year the mineral industry spent $70 million. The aforementioned is the largest amount the mineral industry has spent in two decades. Furthermore, the amount of claims staked has dramatically increased to about 25 million acres. He attributed the increasing percentage that Alaska is gaining from North American exploration to high metal prices and the proven ability to permit hard rock mines in Alaska in an environmentally friendly way. Finding Pogo and others convince people that there are still [reasons to explore]. Mr. Loeffler then used a map of exploration to illustrate that mining exploration is widely distributed throughout the state.

1:31:28 PM

MR. LOEFFLER then turned attention to placer mining, which he said is [recovering] from a few years of low metal prices. Roughly 265 placer mines were permitted, although he suspected that somewhat less than that are in operation. Still, that's an increase over the last couple of years. Mr. Loeffler said that although placer mines aren't a [major] contributor to employment and the state coffers, they are important to the rural communities in which they are located. He then showed the committee a photo of an operating placer mine as well as a reclaimed placer mine.

MR. LOEFFLER moved on to hard rock mines by showing the committee a map highlighting the following four large mines in the state: Red Dog, Fort Knox, Usibelli, and Greens Creek. Kensington and Pogo Mines are under construction and Rock Creek, Donlin, and Pebble Mines are advanced exploration projects. Mr. Loeffler then reviewed the history of mining. From World War II to 1989, when Red Dog and Greens Creek started, there were no large mines in the state. Over the past 15 years, the state has developed an industry that has grown. This is an important context to keep in mind, he opined.

MR. LOEFFLER first addressed the Red Dog Mine, which is the world's largest lead zinc mine. The Red Dog Mine really made the Northwest Arctic Borough possible. However, when the Red Dog Mine began there was no reclamation requirement nor a reclamation bond or tailings permit. Therefore, the state is now in the process of bringing its permits up to date with existing law. He expected that those permits would be in place late this year. He then turned to the Fort Knox Mine, for which the ore body is on Alaska Mental Health Trust Land. He explained that there is no contribution to the permanent fund. Mr. Loeffler opined that the reclamation at Fort Knox is something to be proud of, and highlighted that the organization of Alaskans for Responsible Mining has held up Fort Knox as an example of responsible mine practices. The Greens Creek Mine started production in 1989, was suspended in 1993, and resumed in 1995. The Usibelli Mine is the oldest of the state's large mines; it started in 1943. There is hope that the Usibelli Mine will expand its export shipments in the near future, he related. He highlighted the reclamation of the Usibelli Mine as well.

1:37:46 PM

MR. LOEFFLER returned to the state's two large mines under construction: Pogo and Kensington. The Pogo Mine is the state's first large mine that will be located on state land. Therefore, it will be the state's first mine from which royalty comes directly to the state. The Kensington Mine was permitted in June and started production in early July. Mr. Loeffler then focused on future projects, which haven't come in for permitting yet. Rock Creek, located on state land by Nome, has two separate sites that have a four- to five-year mine life. Donlin Creek Mine is a larger mine located on Native land.

[Due to technical difficulties the audio is practically inaudible.]

There was discussion regarding the local contribution of mines.

1:42:28 PM

[Due to technical difficulties the audio is practically inaudible and the transmission was disconnected at 1:54 p.m.]

1:56:54 PM

DAVID SZUMIGALA, Alaska Division of Geological and Geophysical Surveys (DGGS), Mineral Resource Projects and Products, responding to a question, informed the committees that the geophysical survey has surveyed about 5.6 million acres, which amounts to about 11-13 percent of the 40 million acres of potential mineral resource lands in Alaska. Therefore, a lot of land remains to be surveyed. Dr. Szumigala explained that DGGS is mandated to conduct geological and geophysical surveys in order to determine the potential of Alaska mines for the production of metals and minerals. Many of DGGS's products are to designed to get people to come to Alaska or to help those who explore Alaska in their efforts to develop mines. Specifically, DGGS provides information to those funding exploration in Alaska. He utilized a map to illustrate the wide distribution of projects throughout the state. Dr. Szumigala highlighted DGGS's web page because it can help anyone anywhere with regard to mining information. In fact, it received over 42,000 hits in fiscal year 2004. He attributed part of those hits to the fact that historical documents were converted to PDF files that can be easily downloaded onto a computer for instant use. Since DGGS did such a good job with its conversion, the United States Coast Guard (USGS) has contracted with DGGS to convert most of

USGS's pertinent publications into PDF documents, which are located on DGGS's web site. Therefore, most all of Alaska's historical geology can be obtained from DGGS's web site.

DR. SZUMIGALA highlighted DGGS's cooperative program with the United States Bureau of Land Management (BLM), which is a mineral potential assessment of the Kobuk Seward Peninsula. Such cooperative programs benefit the state if the best information is available for resource planning and decisions. He also highlighted the land selection project, which provides information on geology and mineral deposits over the land the state still has to select and convey from the federal government. About 14 million acres are left to be conveyed of which about 8.5 million acres has high to moderate mineral potential. Therefore, [the goal] is to obtain the best benefit for the state by providing a land selection list based on the highest [mineral] potential. Dr. Szumigala mentioned the geological material services center in Eagle River.

[Due to technical difficulties the audio is inaudible and thus the transmission was disconnected at 2:08 p.m. The audio begins again at 3:00 p.m.]

3:00:42 PM

KARL HANNEMAN, Teck-Pogo Mine, reviewed the Teck-Pogo Mine with visual aids. He discussed road construction [related to mining operations]. Mr. Hanneman also discussed the construction of a transmission line, which he said was similar to that between Eielson [Air Force Base] and Delta [Junction]. He reviewed the locations of the substations [on the transmission line]. He mentioned the construction of a water treatment plant.

3:06:41 PM

CO-CHAIR RAMRAS pointed out that often folks don't realize the upfront capital investment necessary. Therefore, he requested that Mr. Hanneman detail the range of gold prices between the beginning of this project in 1997 and now, what the [mine] cost to build, and from where the capital is coming.

MR. HANNEMAN recalled that [the price of gold] was about $325 and now it has risen to about $425. The objective was a 10 percent return at a price of $275 gold. "When the price was that low, we weren't making it and we were concerned," he related. He mentioned that there were several iterations of the feasibility study trying to optimize the project. Ultimately, the board approved the project with a capital cost of $284 million. Had the capital costs reached the $320 million, the outcome would've been less certain. Because this project has a high dollar value per ton of ore and the project is in operation, the operating costs are quite low while the cost of capital recovery will be high. Mr. Hanneman said that he didn't have a stress price, although there is concern.

3:09:11 PM

MR. HANNEMAN informed the committees that there will have to be a manned camp on site that consists of about 230 individuals. The camp also includes a shop. He highlighted the importance of collecting and treating the water of the project, and showed the committee pictures of the various aspects of the water collection and treatment. He noted that currently the project has about 450 people on site. He estimated that construction will essentially be over in December. He then provided a list of the contractors who have provided support for the project. In 2004 approximately $104 million was paid to Alaska contractors and to date the project has 69 percent Alaska hire. He reviewed the [company's] commitment to Alaska hire and the training and policies it employed to that end. Mr. Hanneman noted that there is a worldwide mining boom, which has led to the offering of signing bonuses such that Teck-Pogo, Inc. is offering up to $10,000 for moving expenses.

3:18:35 PM

CHAIR WAGONER inquired as to the shifts mine employees work.

MR. HANNEMAN answered that there are a number shifts. There are shifts in which the employee works four days and has three days off. There is also a shift in which the employee works two weeks and has one week off. "The challenge of developing a workforce in this environment is significant," he opined. In further response to Chair Wagoner, Mr. Hanneman confirmed that the out-of-state workers tend to work the two weeks on and one week off shift. Therefore, the $10,00 bonus is held up as an incentive to relocate.

3:20:07 PM

MR. HANNEMAN turned attention to the list of professionals who reside in the area of the mine, and Pogo's permanent workforce list per job classification. He opined that the company will continue to address the challenges in order to optimize Alaska hire. Furthermore, the company is exploring manners in which to lengthen the life of the project beyond 10 years.

3:22:23 PM

SENATOR THERRIAULT inquired as to the return on capital to [Teck-Pogo, Inc.] over the life of the mine, taking into consideration the increase of the infrastructure.

MR. HANNEMAN explained that the objectives were very clear when the project started, such that there was a goal of 10 percent return at [a gold price] of $275. However, the project has changed a lot, including the increase in capital costs. The financial outlook hasn't been reprojected at this point and won't be until construction is complete because the cost escalation risk is not yet over.

3:23:26 PM

CO-CHAIR RAMRAS recalled Dr. Szumigala's example of how government can help spark the private sector. Therefore, he inquired as to what the state can do to help with the workforce development problem.

MR. HANNEMAN opined that the effort, with which Chair Wagoner was involved, to focus and coordinate training efforts is "a good thing." Therefore, he encouraged the aforementioned to continue. In further response to Co-Chair Ramras, Mr. Hanneman specified that the salary base for Pogo is in the range of $66,000. It's a difficult work environment and faces challenges with regard to employees who are accustomed to working at a higher rate seasonally. Although these are good jobs, the hourly rate doesn't compete with Davis-Bacon wages or summertime construction.

3:26:11 PM

REPRESENTATIVE HARRIS asked if [Teck-Pogo, Inc.] has worked with organized labor in trying to develop a local workforce that can be trained in its infrastructure.

MR. HANNEMAN said that [Teck-Pogo, Inc.] really values its relationships with some of the unions. There have been some discussions in that regard, although nothing has been pursued at this point. In response to Co-Chair Ramras, Mr. Hanneman related that even before construction [Teck-Pogo, Inc.] tried to develop relationships with the communities in the area relating the jobs that would be coming available as well as the training necessary for them. Furthermore, there has been a [collaborative] relationship with regard to job-preparedness issues. In fact, as recruitment begins for entry-level positions there has been contact with a number of the village councils for recommended candidates.

3:28:31 PM

CO-CHAIR RAMRAS related that he was recently in Delta. He opined that it's difficult to see the direct impact of Teck-Pogo, Inc. because of the work going on at Fort Greely. He inquired as to the number of support jobs created as related to the construction of the mine.

MR. HANNEMAN replied no.

3:29:30 PM

SENATOR THERRIAULT inquired as to whether there is a trend with regard to the location in which permanent employees are choosing to live.

MR. HANNEMAN explained that [Teck-Pogo, Inc.] offers transportation from Tok through Delta to Pogo or from Fairbanks to Pogo. In further response to Senator Therriault, Mr. Hanneman specified that currently there are more riders on the transport from Fairbanks.

3:30:40 PM

CO-CHAIR RAMRAS requested that Mr. Hanneman touch on the discussions of the [Fairbanks North Star Borough] expanding and how expansion may impact the strategic planning of Teck-Pogo, Inc.

MR. HANNEMAN said that Teck-Pogo, Inc. has sought the support of the Delta community, which has responded greatly. He opined that there will be an agreement that allows Delta to choose whether it proceeds with a borough or not at their own discretion. If Delta chooses to proceed, he said that Teck-Pogo, Inc. will be an active participant through a payment in lieu of taxes. Mr. Hanneman mentioned that "it was somewhat delayed" due the lack of passage of House Bill 217 of the Twenty-Third Alaska State Legislature. The aforementioned legislation would've clarified that in areas with pipeline or gasline assets that don't choose to implement a property tax, the [area] wouldn't be penalized and wouldn't have to provide that contribution to the local schools. That piece is key in regard to Delta's fiscal plan and whether a borough would make sense.

3:33:41 PM

SENATOR THERRIAULT turned attention to the water plant, and inquired as to the expected amount of leaching from the mineralized belt. He also inquired as to what the [water plant] will treat.

MR. HANNEMAN explained that the ore body includes gold and elevated levels of arsenic, which isn't that dissimilar from the ground water around Fairbanks. He said that the goal is to remove, prior to discharge, the arsenic from the collected water. A (indisc.) coal precipitation plant has demonstrated its effectiveness over the last five years as there hasn't been a water quality "exceedence" during that period of time. The chemistry of arsenic is such that it's readily removed.

3:34:54 PM

REPRESENTATIVE HARRIS opined that one of the concerns with regard to borough formation is that the mine and its owners not be the sole source of revenue of the borough as is the case with the Red Dog Mine. He asked if that was a choice that Teck-Pogo, Inc. wanted to avoid.

MR. HANNEMAN indicated agreement.

3:36:13 PM

STEVE BORELL, Executive Director, Alaska Miners Association, updated the committees with regard to smaller mining operations. He began by relating that this is a unique time in history because the prices of precious metal, base metals, and coal are high. To his knowledge the aforementioned has not occurred before. This relates to the lack of qualified workers. Mr. Borell then turned to the question regarding why there aren't more small placer miners. He noted that it continues to be difficult for the small family mines, which he attributed to the following things. In the past there has been uncertainty with regard to National Pollutant Discharge Elimination System (NPDES) permits. He explained that over the past 20 years, the placer mining industry has went from an almost nonregulated industry to one that is highly regulated.

3:40:36 PM

CO-CHAIR RAMRAS recalled that Governor Murkowski was proactive in placing NPDES in the hands of Alaska and out of the hands of the federal government. He opined that NPDES wrecked mining for small families.

MR. BORELL agreed that NPDES was a major factor in the [deterioration] of mining for small families. Furthermore, the uncertainty leading up to where the mining industry is today was a large contributor. The state, he noted, is in the process of taking primacy. He also attributed the difficulty of small family mines to the advance preparation time required for plans and permits to start a small mine. Moreover, much of the ground known to contain placer gold has been mined. Furthermore, there aren't companies drilling new placer reserves.

3:42:52 PM

MR. BORELL then presented some slides of the various mines throughout the state.

[The audio transmission was briefly interrupted at 3:46 p.m.]

3:48:06 PM

CO-CHAIR RAMRAS inquired as to where the state stands with regard to education and jobs in the industry.

MR. BORELL recalled that last year there were six mining engineer graduates, each of which probably received at least three job offers. He relayed that those in the industry say that Alaska isn't [educating] enough mining engineers, which is a common theme throughout the world. He attributed part of that to the low prices in the industry, which resulted in fewer jobs. However, now there are more jobs and it's difficult to get people to focus [on mining as a career].

CO-CHAIR RAMRAS inquired as to what should be done to grow a new workforce.

MR. BORELL said that to get students into mine engineering will take encouragement. He informed the committees that he and Mary have been having conversations with the head of the Department of Mining Engineering and working on various ways in which to spark interest in this field. In fact, they are trying to start educating high school [students] that mining engineering positions are highly skilled positions. He opined that there's no greater place to apply computers. He then turned attention to slides of the Delta Mine training center, which has various funding sources. He continued showing slides of mines across the state.

4:04:15 PM

MR. BORELL continued with slides of the mining tour the Alaska Miners Association recently took in Kamchatka, Russia. The slides also showed a 15 megawatt geothermal power plant, the largest in Russia.

4:10:26 PM

CHAIR WAGONER opined that the thread that runs throughout this presentation is education. He recalled learning at the recent National Conference of State Legislatures (NCSL) conference the unwillingness of students in the U.S. to pursue education in technical degrees such as engineering. The aforementioned is resulting in the U.S. falling behind worldwide. Therefore, he encouraged folks to look into a way in which to entice students into these areas through two-year and four-year programs. He recalled the petroleum scholarship program that was implemented years ago [in Kenai]. In the aforementioned program, the student's tuition was paid by the oil companies while the second year the student paid his/her own tuition because a full-time [summer] job was guaranteed if he/she completed the first year of college studies. Most of those students are now shift supervisors or higher level employees in the petroleum industry at the North Slope. Although that program no longer exists, perhaps such creativity should be utilized to increase Alaska hire.

4:12:36 PM

DR. BUD FATE, former Representative, thanked everyone for attending today.

4:14:50 PM

ADJOURNMENT

There being no further business before the committees, the meeting was adjourned at 4:14 p.m.