

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

February 23, 2011

12:05 p.m.

MEMBERS PRESENT

SENATE RESOURCES

Senator Joe Paskvan, Co-Chair
Senator Thomas Wagoner, Co-Chair
Senator Bill Wielechowski, Vice Chair
Senator Bert Stedman
Senator Lesil McGuire
Senator Hollis French
Senator Gary Stevens

HOUSE RESOURCES

Representative Eric Feige, Co-Chair
Representative Paul Seaton, Co-Chair
Representative Peggy P. Wilson, Vice Chair
Representative Neal Foster
Representative Cathy Engstrom Munoz
Representative Scott Kawasaki

MEMBERS ABSENT

SENATE RESOURCES

All members present

HOUSE RESOURCES

Representative Alan Dick
Representative Bob Herron
Representative Berta Gardner

COMMITTEE CALENDAR

ANNUAL MINING INDUSTRY BRIEFING

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

STEVE BORELL

Alaska Miners Association

POSITION STATEMENT: Briefed the committee on large surface mines in Alaska.

MIKE SATRE, Executive Director

Council of Alaska Producers

POSITION STATEMENT: Briefed the committee on underground mines in Alaska.

STAN FOO, General Manager

Donlin Creek Project

POSITION STATEMENT: Briefed the committee on the Donlin Creek project.

ACTION NARRATIVE

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CO-CHAIR JOE PASKVAN called the joint meeting of the Senate and House Resources Standing Committees to order at 12:05 a.m. Present at the call to order were Senators French, Stedman, Stevens, Co-Chair Paskvan and Co-Chair Wagoner; Representatives P. Wilson, Co-chair Feige and Co-Chair Seaton.

Annual Mining Industry Briefing

CO-CHAIR PASKVAN announced the annual Mining Industry Briefing.

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SENATORS WIELECHOWSKI and MCGUIRE joined the committee.

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STEVE BORELL, Alaska Miners Association, said he would cover the large surface mines.

He is often asked why Alaska has so little mining today. Until World War II mining was the biggest industry in Alaska. A presidential order closed mining during World War II. After the war some placer mining resumed, but it was not economic. Base metal mining had excess capacity, which held down exploration activity in the state. From 1989 to the present there has been steady growth, and today there are six large mines in the state.

The Prudhoe Bay oil discovery led to uncertainty until Greens Creek and Red Dog went through the permitting process and proved to the world that mining could work here and derailed the idea that Alaska is just one big park.

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From a placer mining standpoint, approximately 200 small placer operators produced about 57,000 ounces last year. They expect that 2011 will be similar or slightly higher, because of metal prices.

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REPRESENTATIVES MUÑOZ and FOSTER joined the committee.

Usibelli Coal Mine pictures show the strip mining technique; the strip moves as mining and reclamation goes on. This is a continuous process.

CO-CHAIR WAGONER wanted to talk about RS2477 problems.

MR. BORELL continued by saying that Usibelli is a fourth generation family owned mine, with 68 years of operation and 130 employees. Last year they shipped two million tons, which was a new record. About half of that was domestic and the other half was exported.

The Red Dog Mine went through a two-year project to get the necessary permits; the final permit was received in May of 2010.

REPRESENTATIVE KAWASAKI joined the committee.

MR. BORELL said that Red Dog has 550 full-time employees plus contractors. Fifty-six percent of the employees are NANA shareholders. As an example of permitting for a large mine, Red Dog has 65 permits, 31 separate bodies of regulation apply to the project, 13 different agreements are in place, and nearly 6,000 compliance requirements have to be met. Before mining ever took place, there was naturally occurring acid rock drainage.

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Regarding Fort Knox tailings, a new heap leach of low grade ores is being brought in; a dilute cyanide solution is dripped over it and the solutions are pumped to the mill and processed to get the gold out of solution. Eventually the ore is stacked. This material would otherwise be waste material. Fort Knox has 500 full-time employees. They recently passed a major milestone with

four years without a lost time accident, and four million man-hours without an accident.

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MIKE SATRE, Executive Director, Council of Alaska Producers, said he would review underground mines in Alaska. The mining cycle for underground mines is highly mechanized, and potentially hazardous. Safety is always foremost. After decisions are made by the geologists on where to drill, drillers come in and drill holes for explosives. Before drilling the face, they must secure the ground with rock bolters and supports for miners. Underground rock is then removed.

Most underground mines in Alaska are a combination of cut and fill technique and long hole. A vertical section through an ore body is mined in 60 ft. increments. They fill the void and then continue mining on top, going through the cycle again and again to maximize extraction of the ore body.

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He said that long-hole mining uses both an overcut and an undercut; they drill vertical holes between and then blast out anywhere from ten to 30,000 tons at a time. Once blasted there is no way to secure the ground, so they operate a "mucker" by remote control to keep them safe. This is an example of mining without exposing workers to harm.

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MR. SATRE reported that the Hecla Greens Creeks Mine is a high grade poly metallic ore body, containing world class deposits of silver, zinc, lead and gold. Greens Creek produces three different concentrates. Zinc, lead and gold concentrates are shipped around the world. It has been in production for 20 years and has another 10 years to go.

The economic impact of Greens Creek is 340 employees; 530 total direct and indirect jobs; the largest private sector employer in Juneau; in 2010 \$2 million in pay and benefits; \$111 million operating, capital and exploration costs. It is the largest property tax payer in the City and Borough of Juneau. For 2010 Greens Creek's Alaska mining license tax will bring \$9 million into state coffers. They are currently in the NEPA process, trying to add 30-50 years of tailings storage capacity so that they can develop additional ore bodies. They have a proposal to expand the site by 200 acres. Construction will start in 2012 pending favorable permitting.

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Turning north to the Pogo Mine, Mr. Satre said, is the largest gold producer in Alaska with over 300 employees and 100 full-time contractors. Sumitomo Metal Mining is the operator. It uses a complex milling process, with a conveyor belt taking ore from the mine to the mill facility. The majority of waste material is pumped underground. They have a strong focus on safety and environmental protection. Reserves will take them through 2017, and they are actively exploring for more ore.

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Kensington Gold Mine, a real success story, started operations in July 2010. Average production is about 125,000 ounces of gold per year. It has ongoing exploration to extend mine life. In terms of community impacts, there are 200 employees; 170 indirect jobs, and \$25 million in direct and indirect annual payroll, making it the second largest Juneau employer in terms of payroll.

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MR. BORELL discussed the Nixon Fork Mine that is currently idle but expects to go back into production this summer. They have 40 jobs now and expect 100 by the end of 2011. It has no road access.

He said the Rock Creek Mine was just getting started at the time of the economic crash; they couldn't get a loan, so they maintained permits by keeping people on site. They didn't want to use up their \$10 million. They have now decided to focus on other two primary projects, including Donlin Creek.

Projects in advanced exploration and permitting include Chuitna Coal, a 12 million metric ton per year surface mine. It will use an elevated conveyor to have minimal effects on wetlands areas. They expect have a draft supplemental EIS by the end of 2011.

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MR. BORELL reported that Donlin Creek is now in design status. They are evaluating alternatives for energy at the site. They are considering a 12-inch natural gas pipeline to bring energy to the site, and hope to begin project permitting in 2011. They expect to have 600-1000 production jobs once the mine is operating. This area is incredibly depressed with all the attendant problems that go with having no jobs.

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He went on to brief the committee on Pebble Mine that has invested over \$400 M through 2010, and continues with exploration and infill drilling, as well as mine design and pre-feasibility study. They expect to have 800-1000 production jobs.

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Pebble Environmental Baseline Studies are added to each year. Each one will be a chapter with multiple notebooks of data, the most thorough studies done on any project in Alaska.

Major Exploration projects include the Livengood Gold Project; at one point seven companies were looking and now it's found. A highway is there and goes right past the project. They have 100 people onsite. The resources have increased and as additional data give added confidence in results you can move resources.

He said the Niblack Project (Ketchikan) is a joint venture between Niblack and Heatherdale Resources (which used to be CBR gold). They have done over 100,000 feet of drilling at an estimated cost of \$6 million. \$10 million more will earn Heatherdale a 60 percent interest.

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Arctic Projects include Nova Gold; the legislature has appropriated funding for the Ambler Access study, to investigate the possibility of a road into the area. This would make the project economic.

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The Palmer Project at Haines was discovered by Merrill Palmer in 1969. He staked claims all the way across the mountain over the years. Seven major companies have been exploring over time. The current company, Constantine, may have found a minable project there. It is in the middle of an ice field, and is accessed by helicopter.

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MR. BORELL said he would address Co-chair Wagoner's question regarding RS2477 access. It is based on Revised Statute 2477, which gave the state grants of access routes; if the state used a route for commercial purposes, it became state property. The road to Kensington was an RS2477. Several years ago the legislature passed an act saying that the state of Alaska was asserting its rights to 600 RS2477s rights-of-way. None have been adjudicated. If you want to use one of those, you (either the state or an individual) have to file a suit against the

federal government for a quiet title action. The state has worked diligently at putting together the supporting documentation. It is an expensive process.

This is especially important right now because the Secretary of Interior has created a new category called "wild lands." This goes against the Alaska National Interest Lands Conservation Act (ANILCA). The state needs to pursue RS2477s. Without adjudication, they are still state property, but probably can't be used.

SENATOR STEVENS said Donlin Creek is an amazing pipeline, and asked if it would be closer to go by water.

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STAN FOO, General Manager, Donlin Creek Project, said they have looked at various routes. The area has a short shipping season. They see potential areas in Cook Inlet, which is a year-round port.

SENATOR STEVENS said the project is remarkably energetic. He asked if it would open up energy for villages in the area.

MR. FOO answered they are reluctant to be the provider of natural gas to the region, but they do have to allow for extra capacity and they are open to that. It would have to be separate from their project.

SENATOR STEVENS asked about the size of the proposed pipeline.

MR. FOO said it would be a 12-inch diameter pipeline, about 300 miles long.

CO-CHAIR PASKVAN asked about the projected start date.

MR. FOO answered they will complete the feasibility update in the third quarter of this year. This will give them technical justification for going forward with the pipeline. They hope to start the permitting process this year, and expect that to take three - four years. Once they have the permits, there would be a tree to four years construction timeline as well.

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REPRESENTATIVE MUÑOZ asked them to speak to rare earth material on Prince of Wales Island in terms of international agreements.

MR. BORELL said they sent a letter to the finance committees of both bodies. The state has eight general areas with prospects for rare earths: Vocan Mountain, south west of Ketchikan, had been mined historically and a company is exploring there again. There is half a million in the governor's budget to compile existing data. In the past, companies weren't looking for rare earth. It is incidental in their reports.

Alaskan rocks are very poorly explored. In many cases you can't even see the rocks most of the year, if ever. Modern geophysical analysis techniques allow companies to explore where it wasn't possible before.

SENATOR MCGUIRE noted the demand from China and India for thermal coal is increasing, and asked if the mining association is doing to promote Alaska's coal. It seems to be a good opportunity for Alaska.

MR. BORELL said the immediate need is to see Chuitna Coal going forward. Usibelli is also looking at the Wishbone Hill property. Coal usage is under attack, and the industry must get past that. Companies can create new salmon spawning areas ahead of time before an area is ever impacted. Alaska's coal is good quality and wanted around the world.

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SENATOR MCGUIRE followed up asking white paper for legislative offices to give to people looking at economic development. They need to know how other countries can get in touch with the mining industry in Alaska.

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CO-CHAIR PASKVAN thanked the Council of Producers and Alaska Mining Association and adjourned the meeting at 1:03 p.m.