

# STATE OF ALASKA

## DEPARTMENT OF NATURAL RESOURCES

### DIVISION OF MINING, LAND AND WATER

**SEAN PARNELL, GOVERNOR**

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July 15, 2011

Mr. Ken Taylor  
Vice President, Environment  
The Pebble Limited Partnership  
3201 C Street, Suite 604  
Anchorage, Alaska 99503

Certified Mail – Return Receipt Requested

Dear Mr. Taylor:

As you know, by letter dated November 6, 2009, the Pebble Limited Partnership (“Pebble”) reported taking water during the 2007, 2008, and 2009 exploration seasons from various sites and sources outside those permitted under then-existing Temporary Water Use Authorizations. Based on the information provided by Pebble, DNR initially identified approximately 45 drill sites near which the unauthorized water withdrawals occurred, and initiated an enforcement action. Pebble and the State of Alaska (“state”) then entered into a Settlement Agreement & Release of unauthorized water withdrawals and water uses from sources near drill sites identified in the agreement. The settlement provided, in part, for a payment of \$45,000 in penalties, the creation of a Water Withdrawal Plan to ensure that future violations did not occur, and the right for DNR to conduct a field inspection at Pebble’s expense to ensure that no adverse environmental effects had occurred. That inspection, conducted June 15-16, 2010, revealed no adverse environmental effects.

While preparing for the June 2010 field inspection, it came to DNR’s attention that there had been unauthorized withdrawals from water sources near drill sites that were not identified in the settlement agreement. DNR conducted further investigation concerning these additional unauthorized water withdrawals, and we are writing to inform you generally of the results of that investigation. It appears that there were an additional nine water sources from which additional unauthorized water withdrawals took place. DNR inspected these additional sites on July 7-8, 2010 and found no adverse environmental effects. DNR also verified that Pebble had obtained the proper Alaska Department of Fish and Game Fish Habitat Permits at these additional locations, which would have required appropriate measures to protect fish and fish habitat.

At this time, DNR will not seek any additional penalties from Pebble for the unauthorized withdrawals from these additional locations. The additional nine locations were identified through the information reported by Pebble in 2009, and the violations occurred during the same exploration seasons as the violations that were specifically identified in the Settlement Agreement & Release. DNR’s investigation has determined that the additional unauthorized withdrawals caused no environmental damage and that the appropriate Fish Habitat Permits were obtained. Additionally, the previous penalties assessed and the successful implementation of the Water Withdrawal Plan appear to have adequately compensated the state for its lost permitting fees, the time necessary to

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investigate and address the violations, the transgressions against the state's ownership and management interests in these state resources, the violations of the state's permitting authorities, and have served as a successful deterrent to future violations. Accordingly, DNR's investigation of this matter is closed.

Please be aware, however, that the fact that DNR is not seeking additional penalties for these additional unauthorized water withdrawals is not an indication how DNR will respond if any future unauthorized water withdrawals occur. It is only because the state's interests affected by these particular instances of unauthorized water withdrawals were adequately protected by the Settlement Agreement & Release and the Water Withdrawal Plan already implemented that DNR is not seeking additional penalties. Any future trespass against the state's ownership and management interests in state resources or failure to comply with state permitting and regulatory processes will be reviewed and treated accordingly, especially if such failures occur in violation of the extra safeguards already implemented.

DNR's report from the July 7-8, 2010 inspection is enclosed for your records, and this information will be posted to the DNR website. If you have any questions, please call me.

Sincerely,

A handwritten signature in blue ink, appearing to read "Brent Goodrum", with a horizontal line extending to the right.

Brent Goodrum  
Director, DNR DMLW

cc: John Shively, CEO, Pebble Partnership  
Commissioner Dan Sullivan  
Commissioner Cora Campbell  
Attorney General John J. Burns  
Ed Fogels, Deputy Commissioner  
Randy Bates, Director, ADF&G Habitat  
Gary Prokosch, Chief, DNR, DMLW, Water Resources Section  
Rick Fredericksen, Chief, DNR, DMLW, Mining Section  
Tom Crafford, Director, DNR Office of Project Management and Permitting  
Sharmon Stambaugh, DNR Large Project Coordinator