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ALASKA STATE LEGISLATURE  
HOUSE RESOURCES STANDING COMMITTEE  
January 20, 2017  
1:00 p.m.

MEMBERS PRESENT

Representative Andy Josephson, Co-Chair  
Representative Geran Tarr, Co-Chair  
Representative Dean Westlake, Vice Chair  
Representative Harriet Drummond  
Representative Justin Parish  
Representative Chris Birch  
Representative DeLena Johnson  
Representative George Rauscher  
Representative David Talerico

MEMBERS ABSENT

Representative Chris Tuck (alternate)

COMMITTEE CALENDAR

OVERVIEW: DEPARTMENT OF NATURAL RESOURCES

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

JOHN MORRISON, Executive Director  
Mental Health Trust Land Office  
Office of the Commissioner  
Department of Natural Resources  
Anchorage, Alaska

POSITION STATEMENT: Provided an overview of the Mental Health Trust Land Office, and answered questions during the PowerPoint presentation entitled, "Department of Natural Resources Overview for House Resources Committee January 18, 2017."

ANDREW MACK, Commissioner  
Department of Natural Resources  
Anchorage, Alaska

POSITION STATEMENT: Introduced staff, provided additional information, and answered questions during the PowerPoint presentation entitled, "Department of Natural Resources Overview for House Resources Committee January 18, 2017."

MARK WIGGIN, Deputy Commissioner  
Office of the Commissioner  
Department of Natural Resources  
Anchorage, Alaska

POSITION STATEMENT: Provided background information on divisions within the Department of Natural Resources and answered questions during the PowerPoint presentation entitled, "Department of Natural Resources Overview for House Resources Committee January 18, 2017."

STEVEN MASTERMAND, Director  
Central Office  
Division of Geological & Geophysical Surveys  
Department of Natural Resources  
Fairbanks, Alaska

POSITION STATEMENT: Provided information on the Division of Geological & Geophysical Surveys and answered questions during the PowerPoint presentation entitled, "Department of Natural Resources Overview for House Resources Committee January 18, 2017."

ED FOGELS, Deputy Commissioner  
Office of the Commissioner  
Department of Natural Resources  
Anchorage, Alaska

POSITION STATEMENT: Introduced Mr. Goodrum, director of the Division of Mining, Land and Water, Dr. Longan, Executive Director of the Office of Project Management & Permitting, provided additional information, and answered questions during the PowerPoint presentation entitled, "Department of Natural Resources Overview for House Resources Committee January 18, 2017."

BRENT GOODRUM, Director  
Central Office  
Division of Mining, Land and Water  
Department of Natural Resources  
Anchorage, Alaska

POSITION STATEMENT: Provided information on the Division of Mining, Land and Water, and answered questions during the PowerPoint presentation entitled, "Department of Natural Resources Overview for House Resources Committee January 18, 2017."

CHANTAL WALSH, Director  
Central Office  
Division of Oil and Gas  
Department of Natural Resources  
Anchorage, Alaska

POSITION STATEMENT: Provided information on the Division of Oil and Gas and answered questions during the PowerPoint presentation entitled, "Department of Natural Resources Overview for House Resources Committee January 18, 2017."

SARA LONGAN, Executive Director  
Office of Project Management & Permitting  
Department of Natural Resources  
Anchorage, Alaska

POSITION STATEMENT: Provided information on the Office of Project Management & Permitting and answered questions during the PowerPoint presentation entitled, "Department of Natural Resources Overview for House Resources Committee January 18, 2017."

FABIENNE PETER-CONTESSA, Director  
Central Office  
Division of Support Services  
Department of Natural Resources  
Juneau, Alaska

POSITION STATEMENT: Provided information on the Division of Support Services and answered questions during the PowerPoint presentation entitled, "Department of Natural Resources Overview for House Resources Committee January 18, 2017."

#### ACTION NARRATIVE

1:00:12 PM

CO-CHAIR ANDY JOSEPHSON called the House Resources Standing Committee meeting to order at 1:00 p.m. Representatives Josephson, Rauscher, Drummond, Birch, Parish, Talerico, Westlake, and Tarr were present at the call to order. Representative Johnson arrived as the meeting was in progress.

CO-CHAIR JOSEPHSON made opening remarks.

^OVERVIEW: DEPARTMENT OF NATURAL RESOURCES  
OVERVIEW: DEPARTMENT OF NATURAL RESOURCES

1:02:21 PM

CO-CHAIR JOSEPHSON announced that the only order of business would be a continuation of the overview by the Department of Natural Resources begun during the meeting of 1/18/17.

1:04:46 PM

JOHN MORRISON, Executive Director, Mental Health Trust Land Office, Office of the Commissioner, DNR, informed the committee that the Mental Health Trust ("Trust") has its roots in territorial days when individuals who were found insane were shipped to an institution in Oregon "never to be seen again." He characterized this system as an inadequate level of mental health care for a territory seeking statehood, thus in 1956, the first federal land grant of 1 million acres was granted to the territory of Alaska to be used to generate income and pay for mental health programs. However, the land base was not used for the purpose for which it was dedicated, and in 1984 the

Trust was sued and the courts determined that the land was being given away - designated as parks and for other uses - but was not generating revenue. In 1994, a settlement reconstituted the land trust with a new 1 million acre land grant consisting of about 4,500 parcels located as far north as Livengood, as far west as Ophir, and as far south as Ketchikan. The new trust is governed by a seven-member board and two offices: 1.) The Mental Health Trust Authority, Department of Revenue (DOR), administers grants and programs for the Trust; 2.) The Mental Health Trust Land Office (TLO), DNR, manages land and other assets for the Trust. The tenants of the Trust's mission are: maximize the long-term revenue from Trust land; protect the corpus; protect and enhance the long-term productivity of Trust land; encourage a diversity of revenue-producing uses of Trust land; manage all Trust land prudently, efficiently, and with accountability to the Trust and its beneficiaries. Mr. Morrison stressed that all decisions are made in the best interest of the Trust and its beneficiaries. The Trust and TLO generate two types of revenue: 1.) Principal revenue, which is revenue generated from a divestiture of an interest in Trust land, such as land and timber sales and royalties; 2.) Income revenue, which is revenue generated from interest, rent, bonus bids, and fees. He explained that under the terms of the Trust, the principal must be reinvested in another income-producing asset, and the income is available for use by trustees for programs, administrative costs, and for rebuilding the land base. The trustees have made a decision to focus on both the generation of income revenue and a diversification of revenue streams, because the land and timber sales that have generated a majority of the Trust's principal are diminishing. The TLO manages the Trust's land under a resource management strategy, which is a policy that identifies the highest and best use of parcels, and which is sometimes difficult to achieve. The resource management strategy divides the Trust's land base into seven classifications, one of which is minerals and materials, including the Fort Knox Mine, the Livengood Gold Project, and potential mineral exploration at Icy [Cape]. The real estate asset classification includes the main sources of income generation, and the land classification relates to the stewardship of land not otherwise classified, and also to revenue generation. The forestry asset has waned to almost no activity. At this time, the largest forestry initiative is a land exchange with the U.S. Forest Service (USFS), U.S. Department of Agriculture, for many parcels in Southeast that would be valuable for timber harvest. Although federal legislation is needed to facilitate the exchange, the enabling legislation has been introduced in Congress by the Alaska congressional delegation, and state legislation is being proposed.

1:15:33 PM

MR. MORRISON continued to explain the next classification is programmatic real estate wherein the Trust has assumed

responsibility to participate in the facility needs of beneficiaries' programs, such as providing infrastructure, seed capital, and in-house expertise for beneficiaries. Two examples of infrastructure are the Gateway to Recovery Enhanced Detoxification Center in Fairbanks and the Asset's Inc., facility in Anchorage. Mitigation marketing is a new asset classification for the Trust, and Mr. Morrison said the Trust is monitoring the potential for wetlands and carbon credits mitigation in an effort to protect Trust land while providing immediate revenue. The last category is energy as the Trust has coal resources, gas and possible oil reserves in the Kenai Loop Field, and gas potential in Nenana and Cook Inlet. He pointed out that TLO and the Trust are self-funded and provide significant funding to the state through grants for mental health programs; in fact, during fiscal year 2017 (FY 17), TLO will have generated over \$200 million in revenue from a well-diversified stream, which protects the Trust from commodity markets. Mr. Morrison concluded, advising that all the efforts from the Trust and TLO benefit the Trust beneficiaries.

CO-CHAIR JOSEPHSON stated that an ongoing audit of the Mental Health Trust is currently examining its operations in great detail.

1:20:09 PM

REPRESENTATIVE BIRCH recalled there are policies related to investment practices - perhaps tied to those of the Alaska Permanent Fund Corporation - and asked whether the Trust uses investment-qualified personnel from other departments in regard to real estate investments.

MR. MORRISON responded that the trustees have chosen to diversify investment by using principal to acquire income-producing property; this process has been ongoing for the past 14 years.

CO-CHAIR TARR noted that additional information could be presented to the House Natural Resources Finance Subcommittee on the Trust's most recent activity.

REPRESENTATIVE BIRCH understood there are concerns about whether investment decisions follow best practices policy.

CO-CHAIR JOSEPHSON offered to gather questions in writing. He asked how the Trust would utilize land in the event a proposed mine was not permitted.

MR. MORRISON acknowledged that a proposed mine may never produce revenue; other uses for a certain parcel may be wetlands or carbon credit mitigation, or the land may be returned to the state. In further response to Co-Chair Josephson, he confirmed an exchange with the state may be with other DNR land sources.

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ANDREW MACK, Commissioner, Department of Natural Resources, suggested the DNR overview continue to the Division of Geological & Geophysical Surveys (DGGS), the Division of Mining, Land & Water (DMLW), the Division of Oil & Gas (DOG), and the Office of Project Management & Permitting (OPMP).

1:25:50 PM

MARK WIGGIN, Deputy Commissioner, Office of the Commissioner, Department of Natural Resources, informed the committee the Division of Geological & Geophysical Surveys is based largely in Fairbanks and is comprised of geologists, geophysicists, and scientists with expertise in mineral resources and in geologic hazards throughout the state. In addition, DGGS staff publishes written and online geologic data for public access.

1:27:40 PM

STEVEN MASTERMAND, Director, Central Office, DGGS, DNR, directed attention to slide 11 of the PowerPoint presentation entitled, "Department of Natural Resources Overview for House Resources Committee January 18, 2017." He informed the committee DGGS has been in existence since the formation of the Alaska Territorial Department of Mines in 1912. The division's mission is to assess Alaska lands for their capability to produce metals, minerals, fuels, geothermal resources, sand, gravel, and riprap, and to also assess geologic hazards such as landslides, earthquakes, tsunamis, volcanic activity, permafrost, flooding, erosion, and others. In FY 17, the DGGS operating budget was \$8.5 million, and about one-half of that was unrestricted general funds (UGF). The division employs 51 positions and meets its mission by conducting geological investigations around the state; in regard to metals, oil and gas, and coal, the geologists primarily focus on the potential of those resources. The resulting maps, reports, and analyses that are generated from investigations are published and widely used; furthermore, DGGS makes available physical materials - such as rock samples and core samples - to the division's new Geologic Materials Center (GMC) which was relocated to Anchorage in 2015. Samples from the facility are widely used by oil, gas, and mineral industries, and were used to lead to new discoveries on the North Slope (slide 11). In 2016, the division generated 36.9 million web page views and almost 900,000 publications were downloaded from the web site, which he characterized as a "pretty astounding number of publications," and is a substantial increase from prior years. Almost one-half of the inquiries were related to oil, gas, coal, and minerals, proving that DGGS information is being used to develop the state's natural resources. A key role of the division is geological mapping, and two grants from the U.S. Geological Survey, U.S. Department of the Interior, and funding from a capital project allowed for mapping in Tok River near recent discoveries of copper, lead,

zinc, silver, and gold. The area was largely unknown; however, DGGGS completed a geophysical survey and a mapping project, and released geochemical information that spurred mining claims staking activity in the area. In addition, DGGGS provided information previously gathered on the Bonnifield district to the public, which also led to mining claims staking over 32,000 acres. Mr. Mastermand turned to geologic hazards, noting that Alaska has 54 active volcanos - three have erupted in the past year - and DGGGS monitors volcanic activity and reports eruptions to the governor's office, the Division of Homeland Security & Emergency Management, Department of Military & Veterans' Affairs, and to airports and aviation organizations. As a result of the Pavlof eruption in March 2016, 140 flights were canceled and 6,200 people were prevented from flying through the volcanic ash. Other seismic activity is expected at any time. Also published this year were reports on an area of the North Slope known as the Nanushuk formation, which is found in a sequence of rocks that have produced recent discoveries. The DGGGS reports documented the petroleum geology characteristics of a unit of rocks at Wainwright as high quality, suggesting there is exploration potential between Wainwright and the Colville River area (slide 12).

1:37:23 PM

CO-CHAIR JOSEPHSON surmised there is oil potential "some distance west of Barrow."

MR. MASTERMAND said the report indicates that the Nanushuk formation rocks beneath Wainwright have "some of the right characteristics." Returning to the topic of geologic hazards, he related that DGGGS, in conjunction with the Alaska Earthquake Center, University of Alaska Fairbanks, and the National Oceanic and Atmospheric Administration, U.S. Department of Commerce, produces and distributes tsunami and inundation reports that inform coastal communities of potential danger and evacuation routes.

CO-CHAIR TARR recalled that GMC was initially oversized, and questioned whether the facility is now at full capacity.

MR. MASTERMAND agreed and explained that the facility was filled by one-third when the collection was moved, and now the shelves are 50 percent full. He said he expected the rate of donations to decline to a level rate; on the other hand, facility use has increased to 600 visitors this year. Senate Bill 170 [passed in the 29th Alaska State Legislature] allowed GMC to charge fees for services in order to become less reliant on UGF, and the fees are going to public notice shortly.

MR. MASTERMAND closed, noting that recent analyses on Alaska coal differ from accepted knowledge that coal is a good source for gas but not for oil; in fact, tests by USGS and DGGGS reveal that Alaska coal samples successfully produced oil in the

laboratory environment, which suggests that there may be more exploration opportunities for oil around the state.

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REPRESENTATIVE PARISH asked for the price point for oil at which using coal to produce oil becomes economic.

MR. MASTERMAND was unsure. The division envisions that if coal is heated in the right way and oil migrates out of the coal, oil would be trapped in conventional types of oil traps, thus the economics would be similar.

COMMISSIONER MACK, referring to DGGs data on the Nanuschuk structure, noted that the data is very important to Alaska because exploration to the west and south of existing fields, and into the National Petroleum Reserve - Alaska (NPRA), reveal "stronger trends of ... this particular structure." The department will utilize this data in its management plan of NPRA and new development west toward Wainwright.

MR. WIGGIN added that the aforementioned seismic data relates to GMC [as data and materials are stored there]. The state has accumulated - through the "capital credit system" - credits that have supported seismic shoots of approximately 49 data sets throughout the state. This is a large volume of data, and four data sets are due for release to the public after being held by DNR for ten years as is directed by statute. He cautioned that it is not an easy process to manage large amounts of data sets, spanning from the east side to the west side of the North Slope, throughout Cook Inlet, and perhaps some areas of Middle Earth [areas of the state not on the North Slope or Cook Inlet]. Mr. Wiggin said the Division of Oil & Gas (DOG) and DGGs staff are making efforts to prepare and release the data; subsequently, a fee package will be developed by GMC. He characterized the seismic data as a tremendous asset for new explorers that will create advantages for lease sales.

1:49:07 PM

CO-CHAIR JOSEPHSON expressed his understanding that there is a tension in that the state seeks to release the data to encourage development; however, the state has made an investment to obtain the data and has a proprietary interest. Further, he questioned whether DNR is legally required to release the data.

MR. WIGGIN agreed that the state has made an investment in data that is of value to the public, to explorers, and to investors. The question is how to release the data to stimulate desired oil production and not only exploration; DNR is striving to ensure that the fees charged for the data cover the state's costs of hardware and personnel. The value of the data is to stimulate exploration and production. In further response to Co-Chair

Josephson, he opined DNR is required to release the data.

REPRESENTATIVE PARISH asked for the value of the data.

MR. WIGGINS responded that the state has invested \$0.5 billion to \$1 billion in the data. In further response to Representative Parish, he related that one data set was shot by a private individual at a cost of approximately \$22 million and the owner sold the data set for \$14 million, twice.

REPRESENTATIVE PARISH expressed his concern about the first user selling the data for less than the state.

MR. WIGGIN acknowledged that the state has no mechanism to prevent the resale of data after its release. He opined that DOG and DGGS are not tasked to worry about resales, but to seek production and increased oil flowing through TAPS. He suggested timing the release of data before lease sales.

CO-CHAIR JOSEPHSON questioned whether legislative changes are needed to facilitate the aforementioned timing [of the release of data before lease sales].

COMMISSIONER MACK answered that DNR seeks an ongoing dialogue in this regard. The current statutory language directs the release of data but does not address possible benefits to the state from said release.

1:56:50 PM

ED FOGELS, Deputy Commissioner, Office of the Commissioner, DNR, informed the committee the Division of Mining, Land and Water (DMLW) is a foundational division for DNR and serves as Alaska's real estate agency. The division is responsible for obtaining the state's land entitlement from the federal government, and managing the state's land holdings, water, and mines. The division issues thousands of permits ranging from material sales and boat docks to placer mines, and the division's present focus is to improve its organizational efficiency.

1:57:58 PM

BRENT GOODRUM, Director, Central Office, Division of Mining, Land and Water, DNR, gave a short personal background. He informed the committee that the division is responsible for managing almost 160 million acres, and its core services include acquiring land. The state remains entitled to 5 million acres, and the division seeks to make good selections, acquire clean title, and legal public access. All submerged land beneath navigable water bodies are owned by the state, and the division creates plans for the intended uses and management of lands, which are updated every 20 years. In addition, the division transfers land into municipal and private ownership, which provides opportunities for Alaskans. The division is

responsible for short- and long-term authorizations for the use of land and water, and regulates water use, safety, unorganized platting review, and activities related to coal and mining reclamation. The division provides active stewardship of land and waters and collects revenues for the use of state land (slide 13). In 2016, the division generated \$28.4 million in revenue. One of its projects on the North Slope was issuing authorizations to facilitate a major fiber-optic cable project to improve communications. Currently underway is the North Slope Area Plan that is being prepared for public review, and which is important to the North Slope Borough's municipal entitlements. Further, the division adopted the Eastern Tanana Area Plan which provided guidance for over 2.3 million acres of state land. Recently, the division issued a preliminary decision for the Lake and Peninsula Borough municipal entitlement.

MR. GOODRUM continued, noting that the division filed an action against the federal government to establish clear title to submerged lands beneath navigable water bodies, and was awarded attorney's fees and costs in the amount of \$600,000.

REPRESENTATIVE JOHNSON asked how much municipal land remains to be conveyed from the federal government.

MR. GOODRUM said the North Slope [Borough] is owed a significant amount of land; the total amount that may be granted to a municipality is identified by statute and regulation, and a formula determines the amount. The state works with municipalities and boroughs to identify lands that are appropriate to convey. He clarified that the federal government owes the state over 5.3 million acres; however, the state conveys municipal entitlement land to municipalities.

2:06:59 PM

MR. FOGELS offered to provide the committee with the status of [pending] municipal entitlements.

CO-CHAIR JOSEPHSON said he was interested in the entitlements that are due Nikiski.

2:07:40 PM

MR. GOODRUM continued, stating that the division is investigating state land on the North Slope east of the Point Thomson Unit. The state has the authority to select additional land, however, there are disagreements with BLM on the mapping and survey techniques that are utilized by the federal government. The division also worked with BLM on BLM's offer to convey land based on "a unique survey methodology ... at this point ... it's a continuing dialogue." Mr. Goodrum expressed his interest in finding good solutions as to how the state's remaining land entitlements will be surveyed. Finally, he

pointed out that the division is tasked with conducting tundra travel openings - which are determined by weather and ground conditions - and announced that the eastern and western coastal areas are open for certain travel methods. In 2016, 173 miles of ice roads and additional snow roads were authorized (slide 14).

REPRESENTATIVE PARISH asked whether remaining land selections will be based on the aforementioned seismic mapping.

MR. GOODRUM confirmed that the division considers many factors prior to selecting land. At one point in time the state was required to identify possible selections, thus approximately 20 million acres have been [tentatively] selected, and selected lands will have known and potential resources. Unfortunately, some of the land the state seeks is not currently available due to public orders that withdraw land from the public domain. This issue remains under discussion between the [state] administration, the Alaska congressional delegation, and federal agencies.

REPRESENTATIVE RAUSCHER asked for an estimate of how many miles of ice roads will be built this year.

MR. GOODRUM was unsure. He explained that the need for ice roads varies with oil companies' winter activities, and offered to provide an estimate.

2:13:18 PM

REPRESENTATIVE RAUSCHER recalled that the federal government is looking into the [Wishbone Hill Mine], and he asked for DNR's present position on the project.

MR. FOGELS responded that DNR has an ongoing dispute with the Office of Surface Mining Reclamation and Enforcement, U.S. Department of the Interior, regarding permitting at the Wishbone Hill Mine. The federal office alleges that an error in DNR's permit 15 years ago invalidated the permit, although the operator was informed by the state and federal governments that the permit was valid, thus the operator has been acting in good faith. The mine is not in production; DNR has been "pushing back on that" and is evaluating an appeal of the permit decision at this time.

MR. FOGELS returned attention to an earlier question, and emphasized that 5 million acres are left in the state's land entitlement from the federal government. He cautioned that the state should not rush, but be careful and select the best land. Federal encumbrances prevent the selection of some of the best known land; however, much of the land available remains unknown, and he urged for the state to make measured choices.

REPRESENTATIVE PARISH questioned how the data available is

analyzed, and whether additional land grants from the federal government are forthcoming.

MR. FOGELS advised that division staff is analyzing and publishing the data. In response to the second question, he said more land from the federal government would need to be authorized by Congress.

COMMISSIONER MACK and Mr. Wiggin provided brief background information on Ms. Walsh, Director, Division of Oil & Gas (DOG).

2:19:58 PM

CHANTAL WALSH, Director, Central Office, DOG, informed the committee the Division of Oil & Gas has 112 employees and an operating budget of over \$22 million, of which 40 percent is UGF. The responsibility of the division is to conduct lease sales, collect royalties, authorize oil and gas activities, and regulate common-carrier pipelines for the state. In support of its objective, DOG provides commercial analysis, economic modeling, financial risk assessments, and audits, following its mission, which is to maximize prudent use of the state's petroleum resources for the greatest benefit of all Alaskans (slide 15). In 2016, DOG held the second largest North Slope lease sale by acreage, leasing approximately 600,000 acres. The lease sale also generated the third largest amount of revenue since 1998. Adding the Beaufort Sea to the lease sale, the state received \$17.8 million and added 33,000 acres in the Beaufort Sea area. Next, she turned to the aforementioned release of seismic data, adding that in the lease sale of 2016 were two seismic parcels, one in Cook Inlet and one on the North Slope, which was "picked up by a new player for the North Slope." For the first time, DOG prepared a production forecast in use by the Department of Revenue (DOR), which DOG strongly believes is a probabilistic approach to previous performance, and that reveals a more accurate view of near- and long-term production. Ms. Walsh opined that the aforementioned production forecast is a lean - but not a conservative - production forecast, as many factors have driven production up late in 2016; however, the state is "riding the wave of some great activity on the North Slope in 2014 and [2015] and there's a lag period for that." She cautioned that 2016 has less activity, thus the forecast is an average forecast. Also in 2016, DOG verified and received almost \$1 billion in royalties, rents, and bonus bids on lease sales, and issued seven royalty audits, three of which were for the federal government, and others for ConocoPhillips Alaska, Inc. and BP, that contributed \$27 million to state revenues.

MS. WALSH continued, noting that the Federal Energy Regulatory Commission (FERC) issued an order for the Trans-Alaska Pipeline System (TAPS) to reduce its tariffs for the period from 2009 to 2016, resulting in \$90 million in additional royalty revenue to the state.

2:25:09 PM

CO-CHAIR JOSEPHSON requested further information on the aforementioned federal audits, and inquired as to whether FERC concluded that TAPS tariffs were too high.

MS. WALSH said yes. The transportation tariffs were too high, thus less money should have been taken from the state's royalties. In further response to Co-Chair Josephson, she said the state was a "passive entity"; in fact, the request to FERC to investigate the tariffs was initiated by carriers. She returned to the presentation, and stated that additionally in 2016, DOG coordinated state agencies in processing permits and finalized [FERC] Resource Reports for the Alaska LNG Project (AKLGN) and the Alaska Stand Alone Pipeline (ASAP). In addition, DOG negotiated two royalty-in-kind (RIK) contracts which sell state oil to Petro Star Inc., and Tesoro. She clarified that through RIK contracts, the state takes the value of its royalty in barrels of oil, which is a financial advantage to the state, protects local jobs, and provides fuel.

REPRESENTATIVE PARISH surmised that the state was shorted \$90 million [in regards to the FERC TAPS tariff revision].

MS. WALSH explained that to get its royalty value the state removes transportation costs; after carriers asked FERC to reassess the tariff, FERC lowered the value of transportation, thus the state was owed royalty and interest.

2:29:06 PM

REPRESENTATIVE PARISH referred to the advantages to the state related to its [RIK contracts] with Petro Star and Tesoro, and questioned whether there are similar opportunities in this regard.

MS. WALSH assured the committee that the division will continue to explore all similar avenues.

CO-CHAIR JOSEPHSON expressed his understanding that there is a limited domestic need for instate RIK.

2:30:14 PM

COMMISSIONER MACK informed the committee that a certain amount of royalty comes from TAPS throughput, and the state historically has provided oil to the facilities of instate processors such as Petro Star and Tesoro. Although not in statute, DNR makes oil available and has negotiated a previous contract with Tesoro. The department will present new legislation for a contract providing crude oil to Petro Star's facility so that it can continue refining instate. He advised that many sources of oil are needed for a refining business.

Commissioner Mack stated that DNR will explain this process in detail at a later date.

MS. WALSH returned attention to RIK contracts, and pointed out that with the addition of the Petro Star [contract], the portion of RIK that the state takes is 95 percent of its portion - leaving 5 percent of that as royalty in value - which is close to the maximum RIK that can be taken from the pipeline.

CO-CHAIR JOSEPHSON asked for clarification and observed that most of the state's royalty oil is converted to cash for either the general fund or the Alaska Permanent Fund Corporation. He surmised that a small portion becomes RIK, and said "95 percent of that opportunity has been used ...."

COMMISSIONER MACK said correct. The department seeks what is in the best interests for the state: to take the oil in kind and sell it on the market, or ROV, which is selling the oil back to the producers. The administration's policy is to evaluate both options, and instate refiners employ many, but he emphasized that the state has "maxed out the sale of royalty oil to two instate refiners ...."

REPRESENTATIVE PARISH surmised the state can have a bigger share of RIK oil through contract negotiations with individual producers. He asked whether jobs produced and economic activity are factored into the advantages to the state - in addition to cash value - in RIK transactions.

MS. WALSH advised that when the state sells RIK oil out of Valdez, it is not burdened with transportation costs to the Lower 48, as it would be with ROV, and savings on transportation costs create a small financial benefit to the state.

REPRESENTATIVE PARISH concluded that removing additional transportation costs creates a higher value for the resource, and economic activity and jobs created thereby are a bonus.

MS. WALSH said correct. She returned to the presentation and said the final accomplishment for DOG in 2016 was finalization of the dismantlement, removal, and restoration (DR&R) agreement with Chugach Electric Association Inc., and Anchorage Municipal Light and Power (ML&P), purchasers of Beluga River [Unit] assets from ConocoPhillips Alaska, Inc. The purchasers have acquired additional liabilities for DR&R, and DOG and DNR established liability accounts in this regard.

MR. FOGELS introduced Dr. Longan, the director of the Office of Project Management & Permitting, and informed the committee that this division's central role is to coordinate permitting for large, complex, resource development projects within the state.

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SARA LONGAN, Executive Director, Office of Project Management & Permitting, DNR, stated that the Office of Project Management & Permitting (OPMP) supports private industry, regulators, and the general public by implementing a one-stop permit-coordination shop to help secure a consistent and timely permit process. The office is "rather self-sufficient" with the majority of its FY 17 \$7.8 million budget paid through revenue generated from private sources. This is accomplished through voluntary agreements with mining or oil companies and thereby, OPMP covers its operational expenses and distributes funding to other affected state agencies with similar responsibilities. Continuing in FY 17, OPMP has 15 employees who earn "a high level of praise and acceptance" for OPMP's coordination model which is unique to Alaska, and was developed in the '90s during the onset of the Fort Knox Mine. This model assures companies that permit reviews are robust, transparent, and timely (slide 19). In 2016, OPMP provided service in support of the state's most critical oil and gas projects including: the Nanushuk Project by Armstrong, which could produce 120,000 barrels of oil per day into TAPS; Greater Moose's Tooth 1 and 2, by ConocoPhillips Alaska, Inc.; Point Thomson projects by ExxonMobil Corporation; the Liberty project for Hilcorp, which could be the first production from federal offshore leases; the Smith Bay discovery by Caelus Energy; and the Nikaitchuq project by Eni.

DR. LONGAN, turning to mining, said that OPMP has a well-established mining team which coordinates proposed and operating mines such as: Donlin Gold, Fort Knox, Kensington, Nixon Fork, Pogo, Red Dog, and Chuitna. She explained that OPMP dedicates time and resources to its role engaging with federal agencies in regard to the National Environmental Policy Act (NEPA) reviews for energy and mining projects. Further, the division acts as the state's lead agency related to reviews of federal land management plans such as development in the National Petroleum Reserve-Alaska (NPR-A), outer continental shelf (OCS) activities, and issues related to the Alaska National Wildlife Reserve, area 1002 (ANWR-1002). With support from the legislature, agencies, and the public, OPMP is seeking to establish a statewide wetlands mitigation program, which is currently under review by the U.S. Army Corps of Engineers. She explained that [Section 404] of the Clean Water Act requires that developers complete "a major federal authorization and regulatory process." Although the cost of mitigation to offset unavoidable impacts to aquatic resources is increasing, the financing options for mitigation have been reduced. If successful, a statewide mitigation program will lower project development costs and generate state revenue. Also in 2016, OPMP renewed a memorandum of understanding (MOU) with the North Slope Borough to address issues related to North Slope oil and gas development, and to commit both agencies to collaborate and communicate. Another successful program is OPMP's coordination of the Alaska Geospatial Council's efforts to develop an accurate topographic base map of Alaska. At this time, mapping

covers 77 percent of the state, and she stressed the importance of mapping to explorers and local entities.

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REPRESENTATIVE RAUSCHER questioned whether the geospatial project is a light detection and ranging (LIDAR) project.

DR. LONGAN said yes.

REPRESENTATIVE PARISH recalled the Alaska Mental Health Trust Authority is considering mitigation marketing and sales [for] carbon credits, and asked whether OPMP is working with the Trust.

DR. LONGAN said yes. The division is working with various stakeholders to understand their mitigation needs, not only for the oil and gas industry.

MR. FOGELS, returning to an earlier question, clarified that the technology used in geospatial mapping is similar to LIDAR, but the interferometric synthetic aperture (IfSAR) imagery used is taken from 30,000 feet and provides five-meter accuracy.

CO-CHAIR TARR returned attention to OPMP's [proposed] statewide mitigation program and expressed her understanding that 404 permits currently come through BLM. She questioned whether the state would establish primacy over BLM though another federal agency.

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DR. LONGAN answered that 404 permits are administered by the U.S. Army Corps of Engineers. At the time ConocoPhillips Alaska, Inc., sought a 404 permit from the Corps of Engineers and a right-of-way from BLM within NPR-A, it was required to pay additional mitigation costs because of the Clean Water Act "404 program." There has been momentum from Washington, D.C. requiring the Corps of Engineers, BLM, and other federal agencies to establish individual mitigation policies. She advised that additional mitigation policies will probably be reevaluated by the incoming federal administration. Further, over two years ago, DNR partnered with the Department of Environmental Conservation (DEC) to evaluate whether the state should seek Clean Water Act jurisdiction from the Corps of Engineers. In this regard, research showed that the state's assumption of this federal function is complicated by the proposed Waters of the United States (WOTUS) rules that have now been issued. Dr. Longan remarked:

The intent was clarification of what types of wetlands and water bodies would be jurisdictional under the Clean Water Act .... It generated a lot more confusion, it was litigated almost immediately, and

the WOTUS rule ... is sort of in ... lawsuit purgatory. It's another rule that I believe the incoming administration will be asked to take a look at.

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CO-CHAIR TARR surmised Alaska would have been the first state to pursue [assumption of the federal function of 404 permits].

MR. FOGELS noted that Alaska would be the third state to establish primacy.

CO-CHAIR TARR understood that the state does not have funds to continue the effort, but has the information gleaned.

DR. LONGAN said correct. Further, DEC discovered from the two states that have assumed jurisdiction that the regulatory program is sizable and expensive to administer. Therefore, in order to address the problem of additional mitigation costs and less opportunity for companies to acquire mitigation credits, OPMP believes a more direct solution is to pursue development of the statewide wetlands mitigation program.

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FABIENNE PETER-CONTESSÉ, Director, Central Office, Division of Support Services, DNR, gave brief background information. She informed the committee the Division of Support Services (SSD) differs from other administrative services divisions in that it has the following three components:

- The information resource management (IT) section, which is the keeper of the land records for the state, provides desktop and network support, business application development, and geographic information systems (GIS)
- The recorder's office of uniform commercial code, which records documents in the state permanent record
- The administrative services section, which provides management to help with the budget for the department, financial management, procurement, human resources, and also processes the revenue that flows to the state through DNR.

MS. PETER-CONTESSÉ noted that in 2016, the division continued work on a consolidation of desktop support with the Department of Administration (DOA), saving DOA about \$200,000. In addition, the division's IT component is streamlining the permitting process with the Division of Mining, Land and Water to implement the uniform permitting system. The recorder's office component has provided electronic recording statewide, reducing costs by \$450,000, eliminated eight positions, and

closed six offices, all without loss in state revenue. Finally in 2016, the administrative services component participated in the shared statewide initiative to consolidate and streamline processes related to travel and accounting.

REPRESENTATIVE BIRCH asked how land status related to rights-of-way is monitored.

MR. FOGELS responded that the division tracks state land records after the land becomes state land. The Bureau of Land Management tracks, for example, land records for Native corporation land that is conveyed from the federal government. As DMLW sells a subdivision, the information is sent to SSD thus the management conveyances happen in DMLW, and are recorded by SSD. In further response to Representative Birch, he explained that a legally established right-of-way or lease on state land would be noted on the land plats, and subsequently would be excluded from sale by DMLW.

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ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 3:03 p.m.