

STATE OF ALASKA

DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES OFFICE OF THE COMMISSIONER

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The Honorable Bert Stedman
Co-Chair Senate Finance Committee
Alaska State Legislature
State Capitol, Room 516
Juneau, AK 99801-1182

Dear Senator Stedman:

Thank you very much for the recent opportunity to present and discuss the Governor's Roads to Resources program before the Senate Finance Committee. The Committee's interest and input into this program is most appreciated.

A number of questions were posed by various committee members; Senator Olson in particular provided a list of written questions and issues which required staff consultation to fully answer. Other follow-up questions from your staff have also been provided to the department. Enclosed you will find specific responses to the committee member and staff questions.

There also appears to have been some miscommunication between the department and the Finance Committee concerning potential benefits to the State of Alaska should the natural resource exploration projects in the Ambler Mining District and the Umiat oil field continue to development and production.

The purpose of the resource roads into the Ambler Mining District and the Umiat oil fields are to accelerate exploration, development, and ultimately production of these valuable resources to the State of Alaska.

Although the Ambler Mining District has seen significant exploration dating back to the late 1950's none of this exploration is detailed enough to provide a precise mineral reserve. However, the sum total of exploration does clearly show the Ambler District to be highly mineralized and to have the potential for hosting several massive sulfide mineral deposits similar in size to the Greens Creek Mine near Juneau. (The Greens Creek Mine has been in operation for over 25 years and employs 325 people.) The two best known massive sulfide deposits in the Ambler District (Arctic and Bornite) are both an order of magnitude larger than what was known for the Greens Creek Mine at the time it was developed. An all-weather pioneer road will greatly enhance the exploration, facility construction and eventual operation of the mining district.

Similar to the Ambler Mining District, the data currently available for the Umiat oil field only allows for the estimation of a broad range of oil and gas resources. The Alaska Department of Natural Resources (ADNR) estimates for Umiat range from 70-300 million bbl oil in place. Information provided by Renaissance Corporation suggests Umiat may contain an estimated 250 million bbl's of recoverable oil. Considerable exploration, delineation drilling, and production testing is necessary to refine these resource estimates to what could then be represented as actual reserves. Exploration work, supporting infrastructure, and eventual production drilling will begin much quicker with the availability of an all-weather pioneer road to support those work activities.

In regards to road construction and maintenance, we are proceeding in the following manner:

- The initial pioneer road, constructed with state or a combination of state and private funds, will be built to the lowest road standards required to provide basic access for exploration and site development. The pioneer road will only be available for industrial users; the embankment thickness will only be that required to support construction equipment building the road; the width will be no more than 16' on top; temporary floating bridges, temporary pre-manufactured bridges or other low cost methods will be used for the two river crossings for the Umiat Road. In short, the initial road constructed will only be an access road to enhance the developer's ability to perform exploration work, to begin building infrastructure, and to begin producing their product to bring in revenues that would support constructing the roadway to a higher design standard.
- Prior to construction of the pioneer road, the State and the developer(s) will enter into an agreement to bring the roadway to a higher design standard. The initial agreement will be based on a Private-Public Partnership (3P) concept. The 3P model would be developed to accommodate the developer's stream of revenue; for instance with the Umiat Road the developer needs a buried pipeline to connect to TAPS and the roadway would need to be completed to a high standard quickly for pipeline support. On the other hand perhaps the road to Ambler could be brought to a highway standard along the same timeline that new mine sites come on line.
- Participatory to the initial construction funding techniques, in all cases, the department would designate the roadways as an Industrial Use Highway (IUH). An IUH designation means the department can impose industrial tolls which would at least fund the annual maintenance cost.
- The department is working with the Alaska Industrial Development and Export Authority (AIDEA) on the development 3P concepts as well as examining financing methods for industrial roads.
- If the roadway is eventually improved to a high enough design standard, the department will support opening it for public use.

The department fully realizes the committee's desire for more information regarding the costs of constructing and maintaining the road, the funding sources for the road, the size of the potential

sites, the revenues to the state, and other information to ensure that compiling a complex Environmental Impact Statement (EIS) is a good use of public funds.

We cannot emphasize more that the iterative nature of the EIS process will answer many of the questions the committee brought forward in the hearing. The EIS will be a summary document that considers natural environment impacts, social and cultural environment impacts, road costs, the purpose and need to access these resource rich areas, and a host of other information required through the NEPA and regulatory processes required by federal and state law.

Finally, if the Roads to Resources funding requests contained within the Governor's FY12 capital budget are not approved we will have to stop work on all three projects beginning July 1. A stoppage of work will severely hamper the ability of the private developers to create jobs and bring their products to market. A stoppage will also leave many of the very questions asked by committee members to remain unanswered.

Again, thank you for the opportunity to testify and answer the written questions provided. Please feel free to contact me should you or the committee require additional information or clarification.

Sincerely,



Patrick Kemp
Deputy Commissioner
for Highways and Public Facilities

Enclosure

cc: Senate Finance Committee members
Marc Luiken, Commissioner, DOT&PF
Laura Baker, Director, Division of Administration Services, DOT&PF
Brenda Hewitt, Legislative Liaison, DOT&PF