



THE STATE  
of **ALASKA**  
GOVERNOR BILL WALKER

Department of Natural Resources

COMMISSIONER'S OFFICE

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January 31, 2017

Co-Chairs Tarr and Josephson, House Resource Committee Members:

Thank you for the opportunity to update you on the activities of the Department of Natural Resources. During our overview presentation on January 17<sup>th</sup> and 19<sup>th</sup>, committee members requested additional information on various topics of interest. I attempted to capture those questions and hope that this letter satisfies those requests. If I have inadvertently missed any of your questions, I apologize. I would be happy to get any additional information you may need.

Can you provide additional comments on BLM's East Interior Plan?

*BLM finalized the Eastern Interior Resource Management Plan (EIRMP) on January 5, 2016 without making any changes in response to the State's Protest and the Governor's Consistency Review Finding of Inconsistency. Please find the 3 enclosed documents that represent the correspondence from the Governor to the BLM Director on this issue, which I believe summarize the issue.*

Has there been or is there expected to be lost timber revenues resulting from staffing reductions?

*The Forest Management and Development Component has experienced a 42% reduction in funding and the elimination of 23 PCNs over the past four fiscal years. While the division will continue to complete its obligations, the reduced staffing levels will impact the speed at which we can perform the required analysis to complete timber sales and could have an impact on future revenues.*

To what extent is there an opportunity for the state to make more money by investing in more parks merchandise?

*We are currently working through a proof of concept with seed funds from the division. I anticipate having much better answer to your question after we go through a summer season.*

What percentage of meat sold in Alaska is processed at Mount McKinley Meat and Sausage (MMMS)?

*Over 571 thousand pounds of meat was processed at MMMS compared to approximately 77 million pounds of meat estimated to have been purchased in the State. This works out to less than 1% of total State consumption being processed through this plant.*

Can you keep us updated on the progress of the MMMS?

*The State of Alaska, Division of Agriculture, signed a Purchase and Sale Agreement with Mount McKinley Meat and Sausage Properties, LLC on January 23rd, 2017. We are now in the 90-day due diligence period during which a Phase 1 Environmental Site Assessment of the property will be performed.*

Can you provide more information on the elodea treatment plans?

*The Interior Alaska Elodea eradication project is a collaborative effort between DNR, ADF&G, U.S. Fish and Wildlife Service (USFWS), Fairbanks Soil and Water Conservation District (FSWCD), DEC, and U.S. Forest Service (USFS) formalized as the Fairbanks Elodea Steering Committee (FESC). Since 2012, after its discovery in Chena Slough, public outreach and education have helped bring awareness to the situation. In 2013 and 2014, manual removal and suction harvesting of Elodea was trialed in Chena Slough to test the feasibility of non-chemical management. This method proved to be labor-intensive, and not efficient for reaching eradication goals due to fragmentation. In June 2015, a public meeting was held in North Pole to discuss ongoing Elodea eradication projects around the State; particularly in Kenai and Anchorage, and propose a similar plan of action on the Interior infestations using an Integrated Plant Management (IPM) strategy. In March of 2016 three consecutive public meetings were held in Fairbanks, Nenana, and North Pole to give details of the proposed treatment plan for Chena Slough, Chena Lake, and Totchaket Slough. At these meetings, information on fluridone impacts to the environment and human health were also discussed by DNR, the fluridone manufacturer, USFWS, and FSWCD.*

*A Special Local Needs Label was issued specifically for the use of fluridone product SonarGenesis for moving waters in Alaska. The FESC received approval from DEC for the Pesticide General Permit December 16th, 2015; an approved ADF&G Fish Habitat permit on May 11th, 2016; and DEC Pesticide Use Permit on November 9th, 2016. The DEC also produced a summary of public comments and decision document, and can be found in the draft project's Environmental Assessment: [http://plants.alaska.gov/invasives/pdf/EA\\_Jan2017.pdf](http://plants.alaska.gov/invasives/pdf/EA_Jan2017.pdf). The Environmental Assessment for the proposed project is in its public commenting period until February 3rd, 2017. Details of who to submit comments to can be found here: <https://aws.state.ak.us/OnlinePublicNotices/Notices/View.aspx?id=184107>. The DNR Land Use Permit was applied for by the FESC, and public commenting was held starting March 1st for 30 days; the permit approval is waiting for DNR to respond to public comments before approval.*

*Logistics of management and baseline data are ongoing since 2014. Funding for the project so far has been provided by USFWS in an agreement with FSWCD. Additional funds are being sought after through grants, USFWS invasive species funds, and U.S. Army Corps of Engineers mitigation funds.*

Can you provide more information about the TAPS tariff reduction that lead to increased royalty payments?

*In 2009-2010, Alyeska Pipeline Service Company embarked on a "Strategic Reconfiguration Project" which included replacing four pump stations and the existing control systems on the Trans-Alaska Pipeline System (TAPS). The costs of these activities were included in the tariff calculation for cost recovery. In 2016, the Federal Energy Regulatory Commission, which conducts oversight of TAPS, issued an opinion that the costs of the project were not recoverable and ordered a refund of the tariffs collected in an effort to do so.*

*As the state collects its royalty value at the wellhead, while the sales price is determined at the destination, transportation costs are allowable deductions in the determination of royalty payments. When a refund of those transportation costs occur, the state is entitled to recalculate the royalty payment with the new transportation costs in place. As a result, the Royalty Accounting Section invoiced the appropriate parties for the difference between what they originally paid in royalty and what they should have paid under the new reduced transportation costs. This resulted in approximately \$90 million of additional royalty payments to the State.*

What is the status of remaining municipal entitlements?

*Please see the attached document.*

What is the planned amount of ice roads to be built in 2017?

*225 miles of ice roads are anticipated in the 2017 season. This number matches the 223 miles built last season and is down from the 10-year average of 305 miles.*

Can you provide more information about the federal audits you spoke of?

*The Federal government conveys to the State of Alaska 90% of royalties from federal Cook Inlet leases, 27% of royalties from federal offshore leases within 6 miles of the coastline, and 50% of royalties from federal leases within the NPR-A. Therefore, if there is a federal audit collection those same percentages are also conveyed to the State.*

*The State of Alaska has received a delegation of authority to perform audits on federal properties under Section 205 of the Federal Oil and Gas Royalty Management Act of 1982. This program is housed under the Office of Natural Resource Revenue (ONRR) within the*



*Department of Interior. The State has participated in this program since 2004. There are 8 other states and 7 native American tribes that also have delegations.*

*If Alaska did not participate in this program, we would be reliant on the federal auditors to audit the federal properties within Alaska. Historically, with limited federal labor resources, Alaska properties were not audited.*

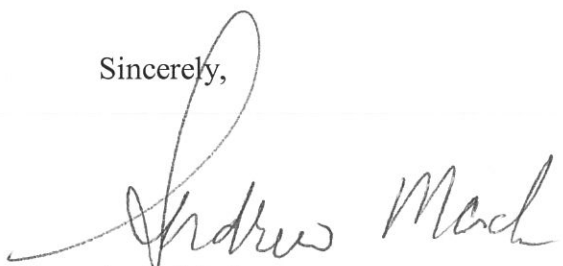
*ONRR reimburses the State 100% for wages, benefits, training and travel for these federal audits. The audit section within the Division of Oil and Gas has four auditors that audit federal oil and gas leases within the State of Alaska. These auditors are State of Alaska employees and split their time between auditing State and Federal properties.*

Can you tell me more about the coal to oil potential you spoke of?

*Please find a report on this topic enclosed.*

I hope you find this information helpful and sufficient to answer your questions. I am also enclosing a brief document that explains the current Alaska Interagency Wildland Fire Management Plan to assist the committee in questions that were raised on this issue. If you have further questions, please don't hesitate to ask.

Sincerely,

A handwritten signature in cursive script that reads "Andy Mack". The signature is written in dark ink and is positioned above the printed name and title.

Andy Mack  
Commissioner  
Department of Natural Resources

Enclosures (6)