

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

January 18, 2006

1:08 p.m.

MEMBERS PRESENT

SENATE RESOURCES

Senator Thomas Wagoner, Chair
Senator Ben Stevens
Senator Bert Stedman
Senator Kim Elton

HOUSE RESOURCES

Representative Jay Ramras, Co-Chair
Representative Jim Elkins
Representative Kurt Olson
Representative Paul Seaton
Representative Harry Crawford

MEMBERS ABSENT

SENATE RESOURCES

Senator Ralph Seekins, Vice Chair
Senator Fred Dyson
Senator Albert Kookesh

HOUSE RESOURCES

Representative Ralph Samuels, Co-Chair
Representative Carl Gatto
Representative Gabrielle LeDoux
Representative Mary Kapsner

OTHER MEMBERS PRESENT

Representative Mike Kelly
Representative David Guttenberg
Representative Mark Neuman

COMMITTEE CALENDAR

Overview: Department of Natural Resources by Commissioner Michael Menge

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

COMMISSIONER MICHAEL MENGE
Department of Natural Resources
400 Willoughby Ave.
Juneau, AK 99801-1724

POSITION STATEMENT: Presented DNR overview.

DICK MYLIUS, Director
Division of Mining, Land and Water
Department of Natural Resources
400 Willoughby Ave.
Juneau, AK 99801-1724

POSITION STATEMENT: Answered questions on state lands issues.

ACTION NARRATIVE

CO-CHAIR JAY RAMRAS called the joint meeting of the Senate and House Resources Standing Committees to order at [1:08:53 PM](#). He announced that Chair Wagoner would arrive shortly. Present were Representatives Elkins, Crawford and Seaton, Senator Stedman and Co-Chair Ramras.

^OVERVIEW: Department of Natural Resources

[1:10:13 PM](#)

MICHAEL MENGE, Commissioner, Department of Natural Resources (DNR) introduced Ed Fogel and Ken Griffin, DNR Deputy Commissioners, William Van Dyke, Director, Division of Oil and Gas, Chris Maisch, Director, Division of Forestry and Dick Mylius, Director, Division of Mining, Land and Water.

COMMISSIONER MENGE said he takes his job seriously and said he doesn't tolerate lack of accountability. His department has the dual responsibility of marketing Alaska's resources and protecting them.

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He expressed that the department needs to encourage resource development across the entire state and not in just one spot. He looks at what can be done in areas that are particularly underdeveloped. An example of this is the development of the Red Dog mine. He emphasized that development ideas must be based on good science as well as sustainability.

He said the state manages its resources through its sales, leases and permitting functions and while competition is important, partnerships, especially concerning the gasline, must be based on the concept of finding common ground and working together to make a project happen rather than taking stands and gridlock.

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CHAIR WAGONER arrived and took up the gavel.

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COMMISSIONER MENGE related that oil supplies in Alaska are declining and noted that the state's regulatory structure could allow more oil to go into the pipeline using the concept known as minimum economic field size. He explained that historically, wells were drilled outside of Prudhoe Bay in which oil and gas were found, but if enough oil wasn't found to make a stand-alone prospect, that well was shut down and written off as a non-discovery. If the gasline is brought on line now, the fact that there is both oil and gas will allow the oil to be developed by virtue of the gas being there.

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He reflected how the Joint Federal State Pipeline Monitoring Office was created in the 1980s to deal with the complexities of state and federal regulations by bringing them together in one place, but not trying to seat authority within one single individual. Each agency was recognized has having its own statutory responsibilities and common ground was developed over different issues.

COMMISSIONER MENGE explained that the state's resource issues are often wrapped in controversy and that often manifests itself in agencies becoming gridlocked. He has tried to spread the common ground concept into DNR agencies so they do not become gridlocked and afraid to act. He philosophized that there is a remedy for an agency that takes wrong action, but there is no remedy for an agency that refuses to take action at all. The department's large project management team gets together and if one agency has a problem, they all figure out how to solve it.

This concept is a core element in accomplishing the partnerships the state is putting together.

He complimented Randy Bates, Director, Office of Project Management and Permitting, for working on the Coastal Zone Management Program with coastal communities so they could understand what their roles and authorities would be and to assist them in succeeding.

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He highlighted how the Division of Habitat was moved from the Alaska Department of Fish and Game (ADF&G) to DNR a few years ago and it now has the responsibility of protecting the resources as well as for establishing the partnerships involved with developing them. The division has created a forum in which to work on contentious projects. Multinational corps can afford to hire the brightest and the best and he thanked the legislature for providing the resources necessary to the Division of Oil and Gas to build its staff and their skill level.

[1:39:26 PM](#)

SENATOR BEN STEVENS arrived.

[1:39:56 PM](#)

COMMISSIONER MENGE continued relating that the Division of Oil and Gas has a remarkable track record in successfully backing up their contentions in court. It recently brought an additional \$22 million to the state coffers through the Exxon Valdez reopener, for example.

He explained how the first oil fields brought in a tremendous amount of money relative to the oversight they needed. But the now smaller reserves outside of Prudhoe Bay take more energy to manage, because their economic viability is so marginal.

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He said that oil and gas development in Bristol Bay is new. One of the Governor's major initiatives is to bring new explorers to Alaska and smaller companies are now coming in to explore the Basin. Smaller companies are less risk averse. He reported that fourteen independent and two major oil companies and eight individuals participated in the last lease sale.

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Lack of development guidelines on the North Slope had plagued the department in the past and the Division of Mining, Land and

Water recently completed the first comprehensive analysis of the appropriate snow cover and temperature to allow off-road travel there lengthening the exploration period by six weeks a year.

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COMMISSIONER MENGE said that Alaska has only scratched the surface of developing its mineral resources and while mining had been drying up in the Lower 48, Alaska is embracing it - as in development of the Pogo Mine. Mining contributed \$1.6 billion to Alaska's economy last year.

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He mentioned that his department has the responsibility of coordinating fire fighting and timber management with the Bureau of Land Management (BLM). But the Division of Mining, Land and Water's key responsibility is receiving land from the federal government as per the Statehood Compact and making that land available for municipalities to select.

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He stated that ownership of navigable waters is still a challenging issue and that the department has just received disclaimers for 26 rivers and 15 lakes, which clears up those titles. RS2477s is one of the most contentious federal issues. He explained that unlike the rest of the country, Alaska is still putting in infrastructure. Our roads are trails that miners used, but they are no less valid than wagon trails that were used down south. The burden of proof is very significant and DNR has to continue to develop the record for that litigation.

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CO-CHAIR RAMRAS asked where the department is on that project.

COMMISSIONER MENGE deferred that question to the director of the Division of Mining, Land and Water.

DICK MYLIUS, Director, Division of Mining, Land and Water answered that quiet title was filed on two routes, which required a lot of research and the Division of State Parks is performing that function. It has contracted with a firm to locate where the trail is.

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He explained that to file quiet title, the department must file on all property owners, but his goal is to assert the RS2477 against the federal government only. Thirty or forty other

parties had property interests and for the last year the division had been working on getting those dismissed. Of those, three are remaining - an owner of property on Chandalar Lake, a private corporation that has land selection rights and the federal government.

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CHAIR WAGONER commented that most mine production is being done by companies that are based in Canada and asked what the State of Alaska can do to encourage Alaska and other U.S. companies to participate in its mining ventures.

MR. MYLIUS responded that a company needs lots of capital to develop a mine and most of those big companies are based outside of the U.S.

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CHAIR WAGONER asked what revenues the state receives from mines that are on state lands like the Pebble Mine.

MR. MYLIUS replied that it is hard to tell, because the Pebble's production size is not known yet, but the state's main source of revenue is royalty. The state doesn't have a lot of experience with major mines because right now all the major producing mines are not on state land. Pogo is the first one on state land and he didn't anticipate receiving a lot of revenue from it for the first few years at least because of its large capital start up costs. The largest source of mining revenue currently is property taxes paid to local governments. When companies show a profit, the state receives its royalties.

[2:14:07 PM](#)

CO-CHAIR RAMRAS asked how the University's 250,000-acre land-transfer with the federal government is proceeding.

MR. MYLIUS answered that the transfer of the 250,000 acres of state land to the University is being worked on since the bill passed last year. An RFP is being worked on for the title work. Two parcels have access issues. But there is no movement on the University lands bill in Congress.

The BLM has ramped up its land transfer program to the state and the state has received 91 million out of its 105-million acre entitlement. He recently submitted his revised land selection priorities to the BLM.

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CHAIR WAGONER asked if they are shooting for completion by the year 2008.

MR. MYLIUS replied that his calculation comes out to 2010 through 2012, but substantial progress is being made.

[2:17:16 PM](#)

REPRESENTATIVE PAUL SEATON said he heard that some companies were going to try to escape paying corporate tax by using LLCs or sub S structures and asked how prevalent that would be in the future.

COMMISSIONER MENGE responded that that action would not be in the best interests of a good partner relationship and he wouldn't stand by and let that happen.

REPRESENTATIVE SEATON clarified that he wasn't accusing anyone of wrongdoing since those structures are specifically provided for in law.

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COMMISSIONER MENGE responded that he believes in partnerships that are fair and if he sees a problem, he will bring it to the legislature and lay it on the table.

COMMISSIONER MENGE moved his discussion to state parks that he summarized are suffering from benign neglect. Over four million people visit Alaska's parks every year and 80 percent of those are Alaskans. The division has tried to innovate with privatization, but that has had limited success. The park system has had no strategic plan since 1971 and is in need of some serious attention. He said we can't ignore them or the parks will become liabilities instead of assets. He will be embarking on providing a new strategic plan.

[2:23:38 PM](#)

COMMISSIONER MENGE said the Division of Agriculture has diminishing stature within the state and he wants to strengthen those programs.

[2:27:05 PM](#)

REPRESENTATIVE HARRY CRAWFORD asked if he is considering alternative and renewable energy like wind, water and geothermal. He urged the commissioner to be forward-looking.

[2:28:52 PM](#)

COMMISSIONER MENGE replied that he is working on geothermal energy projects at Chena Hot Springs and in the Aleutians. The department is also working on a methane hydrate project on the North Slope where as much as 33 TCF of hydrates are capable of being produced using conventional technology. The wind farm at Kotzebue is at the forefront of that technology.

[2:31:34 PM](#)

REPRESENTATIVE MARK NEUMAN asked him if there would be a smooth transition of Mt. McKinley Meat and Sausage into private hands relative to its being a USDA certified packaging plant.

COMMISSIONER MENGE replied that two of his staff would go over the plan with him regarding that issue on the following day.

[2:33:10 PM](#)

CHAIR WAGONER asked what he thought of the "one-stop-shopping" for permitting bill introduced by Senator Guess.

COMMISSIONER MENGE replied that he had not looked at the bill and that while one-stop-shopping is an important concept, it is unwise to give one agency authority over other agencies. He promised to examine the issue carefully.

[2:34:12 PM](#)

REPRESENTATIVE SEATON asked him to comment on the proposed Farm Service Agency office closings in Homer and Wasilla.

COMMISSIONER MENGE replied that he was not aware of the closures and would check into them.

[2:35:11 PM](#)

SENATOR ELTON arrived.

CHAIR WAGONER thanked the commissioner and his staff for their comments and adjourned the meeting at [2:35:54 PM](#).