

HOUSE FINANCE COMMITTEE
January 25, 2007
1:35 p.m.

CALL TO ORDER

Co-Chair Meyer called the House Finance Committee meeting to order at [1:35:07 PM](#).

MEMBERS PRESENT

Representative Mike Chenault, Co-Chair
Representative Kevin Meyer, Co-Chair
Representative Bill Stoltze, Vice-Chair
Representative Harry Crawford
Representative Richard Foster
Representative Les Gara
Representative Mike Hawker
Representative Reggie Joule
Representative Mike Kelly
Representative Bill Thomas, Jr.

MEMBERS ABSENT

Representative Mary Nelson

ALSO PRESENT

Representative Bob Buch; Representative Anna Fairclough

PRESENT VIA TELECONFERENCE

Marty Rutherford, Acting Commissioner, Department of Natural Resources; Dick Mylius, Acting Director, Division of Mining Land and Water, Department of Natural Resources; Chris Maisch, Director, Division of Forestry, Department of Natural Resources; Kevin Banks, Acting Director, Division of Oil & Gas, Department of Natural Resources; Larry DeVilbiss, Director, Division of Agriculture, Department of Natural Resources

GENERAL SUBJECT(S):

OVERVIEW: DEPARTMENT OF NATURAL RESOURCES

The following overview was taken in log note format. Handouts will be on file with the House Finance Committee through the 25th Legislative Session, contact 465-6814. After the 25th Legislative Session they will be available through the Legislative Library at 465-3808.

TIME	SPEAKER	DISCUSSION
1:36:33 PM	Co-Chair Meyer	Introduced members and presenters.

1:37:04 PM	MARTY RUTHERFORD, ACTING COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES	Introduced members of her staff.
1:40:35 PM	Commissioner Rutherford	Related that she will highlight challenges to the Department of Natural Resources (DNR) and described key programs as shown in the handout "Department of Natural Resources As of January 2007" (copy on file.) She shared DNR's mission: "To develop, conserve, and maximize the use of Alaska's natural resources consistent with the public's interest." She described the responsibilities of the Commissioner's office and emphasized the three top issues: the natural gas pipeline, Bristol Bay omnibus issues, and employee recruitment and retention.
1:42:20 PM	Commissioner Rutherford	Spoke to recruitment and retention issues and noted that DNR is crucial to Alaska's economy.
1:44:38 PM	Commissioner Rutherford	Discussed the mission of the Division of Oil and Gas. The three primary purposes of the Division are to encourage exploration and development, to maximize benefits of development and production to the state, and to maximize non-tax revenue from oil and gas production. The transition team's focus was on declining oil and gas production on the North Slope, the Point Thomson litigation, and the gas pipeline project. It also addressed system integrity. DNR will be moving into a larger role on the North Slope; coordinating oil and gas permitting and oversight activities of state and federal agencies, reviewing quality assurance programs of companies, and insuring there are no gaps or duplications of efforts among the various regulatory agencies.
1:46:45 PM	Commissioner Rutherford	Addressed the mission of the Office of Project Management & Permitting - Coastal Management, which is to oversee responsibility of coastal uses and resources. The Coastal District Plan

		revisions are on-going. She related the purposes of the Transitional Report.
1:49:04 PM	Commissioner Rutherford	Summarized the purpose of the Office of Project Management & Permitting - Large Project Permitting, which coordinates state review and permitting, and state participation in federal land use planning efforts. It is almost entirely funded by program receipts.
1:50:11 PM	Commissioner Rutherford	Explained the purpose of the Office of Habitat Management and Permitting, which is to protect Alaska's fish and wildlife resources and their habitats.
1:52:20 PM	Commissioner Rutherford	Related the purpose of the Division of Mining, Land and Water and its various offices. This division is the foundation for all of the other agencies in DNR.
1:54:09 PM	Commissioner Rutherford	Spoke about the Forestry Division and highlighted its purposes. This division also provides Fire Suppression services.
1:57:32 PM	Commissioner Rutherford	Talked about the Geological and Geophysical Surveys Division, its purpose and important issues.
1:59:30 PM	Commissioner Rutherford	Discussed the Board of Agriculture and Conservation and the role of the Division of Agriculture.
2:00:29 PM	Commissioner Rutherford	Spoke about the Conservation and Development Board, which provides support and advice for conservation planning. She related information about the Alaska Mental Health Trust Land Office, a distinct entity.
2:02:21 PM	Commissioner Rutherford	Explained the Division of Parks and Outdoor Recreation's tasks. A key difference between Alaska's state parks and Alaska's national park system is that the state parks are located near communities and along road systems and are accessible to Alaskans.
2:03:33 PM	Commissioner Rutherford	Highlighted the Support Services Division, which provides the information technology services and graphic land records to DNR. She emphasized the services provided.
2:06:24 PM	Commissioner Rutherford	Noted the involvement of DNR with work on the gas pipeline.
2:06:57 PM	Vice-Chair Stoltz	Highlighted the difference between Alaska state and national parks, calling the state parks and land

		managers stewards rather than distant landlords.
2:08:25 PM	Representative Gara	Asked if oil production could be increased on the North Slope by improving facilities access.
2:09:07 PM	Commissioner Rutherford	Replied that DNR has not had time to discuss this yet, but would be glad to follow up on it at a later date.
2:09:50 PM	Vice-Chair Stoltz	Asked about a long-range plan for the funding of the Division of Agriculture. Commissioner Rutherford replied that DNR has not had time to address that issue.
2:11:31 PM	LARRY DEVILBISS, DIRECTOR, DIVISION OF AGRICULTURE, DEPARTMENT OF NATURAL RESOURCES	Noted that the revolving loan fund was never intended to run the entire Division.
2:12:39 PM	Co-Chair Meyer	Requested an update on production activity on the North Slope and whether PPT will serve to increase production in the future. Commissioner Rutherford said she is waiting to see how PPT works. She voiced concern about the production decline. She pointed out that she is pleased by the level of production activity by some of the new players such as Shell and British Gas. The intention of PPT is to incentivize exploration and development.
2:15:46 PM	Co-Chair Meyer	Expressed pleasure that there are new companies now on the North Slope. He thought that Shell's off-shore production might not result in royalties for the state.
2:16:23 PM	Commissioner Rutherford	Spoke about Shell's on-shore and off-shore activity.
2:17:10 PM	KEVIN BANKS, ACTING DIRECTOR, DIVISION OF OIL & GAS, DEPARTMENT OF NATURAL RESOURCES	Spoke of the current status of oil and gas activities on the North Slope. He wondered when the results of PPT would be apparent. The players on the North Slope are enjoying the transition credits offered under PPT that newcomers don't get. Mr. Banks described how the royalties are acquired for Shell's explorations. He commented that more volume in the oil pipeline means lower tariffs, which will increase the state's royalties and tax benefits.

2:20:11 PM	Co-Chair Meyer	Mentioned the relationship between the gas pipeline and new oil.
2:20:46 PM	Co-Chair Meyer	Asked for an update on the gas pipeline. Commissioner Rutherford shared where the process is at. She pointed out that there has been a lot of good feedback on Governor Palin's proposed Alaska Gasline Inducement Act (AGIA).
2:22:16 PM	Co-Chair Chenault	Asked if the North Slope is production-limited. Mr. Banks replied that the facilities are working at capacity now. He described how new companies are fitting in.
2:24:11 PM	Co-Chair Chenault	Put forth a hypothetical situation of a new producer bringing in a new well and having to back out a couple other wells in order to put the new well into the system if it were running at capacity, the restricting factor being gas and water, not oil. If it is "volume limited" there needs to be give and take for new players. He talked about expanding facilities. Mr. Banks pointed out that the facilities also include flow lines and pipelines, which are not at capacity.
2:26:16 PM	Co-Chair Chenault	Concluded that if the production facility were not limited by the gas and water content in the reservoir today, there would be more production. Mr. Banks agreed.
2:26:57 PM	Co-Chair Chenault	Asked if legislation was passed last year with the intent to start fire suppression a month earlier this year.
2:28:05 PM	CHRIS MAISCH, DIRECTOR, DIVISION OF FORESTRY, DEPARTMENT OF NATURAL RESOURCES	Replied that is correct. Co-Chair Chenault asked about the Nenana fire. Mr. Maisch replied that the Parks Highway fire was one of the few in the state this past year. Co-Chair Chenault wondered why that fire got out of control. Mr. Maisch replied that each fire is unique and may not be caught, even with an earlier start of the fire season
2:28:50 PM	Representative Hawker	Thanked Commissioner Rutherford for the work she has done on the Mental Health Trust Lands Office. Commissioner Rutherford noted how important it is to stay on top of that specific resource development.
2:30:07 PM	Representative Hawker	Encouraged the Department to continue in the direction of long-range planning

		such as was done for the State Parks System. Commissioner Rutherford said it was an outstanding job, and it focused on the right philosophy and a yearly implementation strategy. Representative Hawker wondered how this trend could continue. Commissioner Rutherford recognized that budget tightening is difficult. She shared her philosophy and approach for DNR. Representative Hawker voiced appreciation.
2:33:14 PM	Representative Crawford	Asked what is next for Point Thomson. Commissioner Rutherford said it is in the early stages of litigation and then the releasing of Point Thomson land will be determined. If litigation is successful, then discussion is needed for alternative methods of releasing that land.
2:34:51 PM	Representative Hawker	Wondered when access to that land will be available. Commissioner Rutherford thought it would be a three-year process.
2:35:49 PM	Co-Chair Meyer	Asked for information about mining projects, the Tongass Management Plan, and the Beaufort Lease Sale.
2:36:32 PM	Mr. Maisch	Explained that the Tongass Management Plan just had a draft Environmental Impact Statement (EIS) released on February 12. The Division is participating in the Tongass Round Table discussion with communities and industries affected by the draft EIS. A team of ADF&G and DNR members will address specific issues in the plan. The overall effort will be coordinated by both departments' commissioners.
2:38:02 PM	DICK MYLIUS, ACTING DIRECTOR, DIVISION OF MINING LAND AND WATER, DEPARTMENT OF NATURAL RESOURCES	Provided an update on mining projects in the state. He stated that mineral prices continue to be very high; therefore there is also a high interest in state lands. There will be record-breaking revenues from taxes and royalties to the state in the next few years. He highlighted big projects such as Pogo, which was recently permitted, and had its first gold produced in February. He listed projects in the permitting stage; Kensington and Rock Creek. He mentioned future projects; Chuitna Coal across from Cook Inlet, Donlin Creek, and Pebble Mine.

2:44:20 PM	Commissioner Rutherford	Added that Rock Creek litigation has been suspended for now and the Beaufort Lease Sale is coming up.
2:45:25 PM	Co-Chair Meyer	Asked about other future sales.
2:46:08 PM	Vice-Chair Stoltz	Asked about projects in the Mat-Su Valley area. Mr. Maisch responded that Lucky Shot is of interest in Hatcher Pass, as is coal development in the Sutton area. There are many projects in the Fairbanks area, also. Commissioner Rutherford talked about the Chickaloon project. Full Metal Minerals is responsible for the lease.
2:48:58 PM	Representative Hawker	Recalled the 2004 Bristol Bay mining plan document regarding Pebble and Talarik Units, where a management plan was required prior to permitting. He inquired if this administration would have such a plan. Commissioner Rutherford replied that she is not familiar with this issue. Mr. Mylius recalled that the 2004 plan called for a comprehensive permitting process for Pebble Mine, not a specific management plan. Representative Hawker disagreed and suggested Mr. Mylius review the plan. Commissioner Rutherford agreed to look at the plan and Mr. Mylius agreed to meet with Representative Hawker at a later date.
2:52:00 PM	Mr. Banks	Discussed the Beaufort sale of March 2006, which brought in about \$14.5 million in bonus bids - a successful sale. BP was the highest bidder at over \$7 million. Sixty-two tracks were leased and 13 tracks were sold. Upcoming sales are on schedule in February for Bristol Bay, in May for Cook Inlet, and in October for Beaufort and North Slope.
2:54:26 PM	Co-Chair Meyer	Asked if there were a gas pipeline in place, would the lease sales be greater. Mr. Banks described how North Slope sales might turn out under that scenario.
2:55:40 PM	Representative Gara	Asked about the Pebble Mine and Talarik Creek water permit. He wondered what rules limit DNR's discretion on granting a water withdrawal permit.
2:56:49 PM	Mr. Mylius	Explained the water withdrawal permit process.
2:58:07 PM	Representative Gara	Inquired if current statutes regarding water withdrawal are adequate. Mr.

		Mylius replied that he thought they were. He added that DNR works with the Department of Fish and Game gathering surface and ground water information and on permitting.
2:59:53 PM	Co-Chair Meyer	Thanked DNR for the presentation. Commissioner Rutherford expressed appreciation for the committee's time.
3:01:12 PM	Representative Joule	Spoke about the high cost of energy in rural areas. Commissioner Rutherford suggested a conversation with Bob Swenson from the Geological and Geophysical Surveys Division.
3:02:21 PM		<u>ADJOURNMENT</u> The meeting was adjourned at 3:02 PM.