

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

January 24, 2011

1:04 p.m.

MEMBERS PRESENT

Representative Eric Feige, Co-Chair
Representative Paul Seaton, Co-Chair
Representative Peggy Wilson, Vice Chair
Representative Alan Dick
Representative Neal Foster
Representative Bob Herron
Representative Cathy Engstrom Munoz
Representative Berta Gardner
Representative Scott Kawasaki

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Senator Cathy Giessel

COMMITTEE CALENDAR

PRESENTATION(S): GEOTHERMAL DEVELOPMENT & GENERATION

- HEARD

OVERVIEW(S): DEPARTMENT OF NATURAL RESOURCES - DIVISION OF
PARKS & OUTDOOR RECREATION, DIVISION OF COASTAL AND OCEAN
MANAGEMENT

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

PAUL THOMSEN, Director
Policy and Business Development
Ormat Technologies, Inc.
Reno, Nevada

POSITION STATEMENT: Provided a PowerPoint presentation regarding Ormat's Mount Spurr Geothermal Project.

BEN ELLIS, Director
Division of Parks & Outdoor Recreation
Department of Natural Resources
Anchorage, Alaska

POSITION STATEMENT: Provided an overview of the Division of Parks & Outdoor Recreation.

ED FOGELS, Deputy Commissioner
Department of Natural Resources (DNR)
Anchorage, Alaska

POSITION STATEMENT: Answered questions following Mr. Ellis's presentation.

CLAIRE LECLAIR, Division Operations Manager
Division of Parks and Outdoor Recreation
Department of Natural Resources
Anchorage, Alaska

POSITION STATEMENT: During overview of the Division of Parks and Outdoor Recreation, answered questions.

RANDY BATES, Director
Division of Coastal and Ocean Management (DCOM)
Department of Natural Resources
Juneau, Alaska

POSITION STATEMENT: Provided and overview of the Division of Coastal and Ocean Management.

ACTION NARRATIVE

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CO-CHAIR ERIC FEIGE called the House Resources Standing Committee meeting to order at 1:04 p.m. Representatives Feige, Seaton, Kawasaki, Dick, Herron, P. Wilson, Foster, and Gardner were present at the call to order. Representative Munoz arrived as the meeting was in progress. Senator Giessel was also in attendance.

PRESENTATION(S): Geothermal Development & Generation

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CO-CHAIR FEIGE announced that the first order of business is a presentation on Mount Spurr Geothermal Project.

PAUL THOMSEN, Director, Policy and Business Development, Ormat Technologies, Inc., first noted that Ormat is a publicly traded company that is on the New York Stock Exchange. He said Ormat is the leader in geothermal equipment and development in the U.S. The company owns and operates about 538 megawatts (MW) of power worldwide, has equipment in about 71 countries, and has supplied over a gigawatt of geothermal equipment around the world [slide 4]. The company is unique because it designs and manufactures its own equipment, builds and develops its geothermal projects, and can own and operate the projects or sell them to third parties. Ormat employs about 470 people in the U.S. and about 1,000 people worldwide, with corporate headquarters in Reno, Nevada.

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MR. THOMSEN displayed a map depicting Ormat's projects around the world [slide 5]. He said these projects include geothermal power plants as well as recovered energy generation units (REG). An REG uses heat from exhaust stacks to heat a working fluid and again produce electricity with no new emissions; such units are being utilized primarily in North America to turn natural gas infrastructure into a source of clean energy.

MR. THOMSEN stated that another type of project is remote power units [slide 6]. Ormat got its start in the U.S. in 1975 when it supplied remote power units to the Trans-Alaska Pipeline System (TAPS); the units open and close the remote gate valves on the pipeline and are still in place today. He noted that Ormat tested one of its first geothermal units in Alaska in 1979 with the University of Alaska Fairbanks at Manley Hot Springs. Today, Ormat has invested about \$5 million into the development of the Mount Spurr Geothermal Project.

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MR. THOMSEN explained that geothermal reservoirs are found by drilling into the earth to find places that have heat, water, and good permeability [slide 7]. All three of these are needed to transfer the heat to produce electricity. The Mount Spurr reservoir is a volcanic reservoir and Ormat has conducted preliminary drilling to verify the presence of all three critical criteria. Ormat's expertise lies in binary geothermal power plants which use heat from hot water, as opposed to steam,

to make electricity [slide 8]. The hot water comes up through a production well and then goes through a heat exchanger where a secondary working fluid is heated. This working fluid - isopentane - vaporizes under a lower temperature, which builds pressure that is relieved across a turbine blade, causing the blade to spin and produce electricity. A benefit of this type of process is that 100 percent of the water is re-injected into the well for re-use; no water is lost from evaporation into the atmosphere. Cooling can be done with either water or air, he continued, and the hope is to air cool the Mount Spurr facility, which also has zero water consumption. This adds longevity to the life of the geothermal reservoir because there is no water depletion of the geothermal brine.

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MR. THOMSEN highlighted the key attributes of geothermal power [slide 19]. He said utilities like the geothermal power that has been deployed in the western U.S. because it is base-load generation. Once the Mount Spurr Project is developed it should produce power 24 hours a day, 7 days a week, 52 weeks a year. Another attribute is that geothermal power is cost competitive. In the Lower 48, Ormat is able to develop projects at about \$3,000-\$5,000 per kilowatt hour; in Alaska, due to the terrain and shorter construction period, the development cost is \$5,000-\$6,000 per kilowatt hour. Geothermal is highly reliable. Once a project is up and operating, Ormat has achieved greater than 95 percent availability, which means that these projects only come off-line for regularly-scheduled maintenance. Low entropy is part of Ormat's equipment design; because the turbine design has low pressure there is no need for a boiler license. Ormat has lots of this equipment deployed throughout the world, indicating there is no risk in the technology. Once the project is developed, there will be a lifetime supply of free fuel because the cost of fuel is amortized over the lifetime of the project. Geothermal is sustainable and environmentally friendly because the closed loop system has no water consumption, has near zero emissions, and has minimal surface and visual impact. Long-term, high-quality jobs are created because the project must run for the next 20 years.

MR. THOMSEN related that development inhibitors are typically resources because it is hard to find good geothermal resources such as those at Mount Spurr [slide 10]. Another development inhibitor is the high upfront capital expenditure and risk that is required to develop geothermal resources.

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MR. THOMSEN noted that getting utilities to move out of their comfort zone and engage in geothermal projects has been tough. Countries and states that have been successful have looked at integrated resource plans, renewable portfolio standards, or other incentives to jumpstart this discussion [slide 11]. Things move forward once the utilities subsequently see that this technology is reliable and cost effective. He said Ormat is before the committee today to ask what ways there might be to get the Mount Spurr development moving forward.

MR. THOMSEN said Mount Spurr is located 75 miles west of Anchorage near the "Tyonek Reservation" and Chugach Electric Association's Beluga power plant substation [slide 13]. Addressing the estimated timeline of development [slide 14], he said Ormat acquired 36,000 acres of state land in October 2008. Non-intrusive exploration and exploration drilling have been conducted. Results were good on the two 1,000-foot-deep slim holes that were drilled and Ormat hopes to continue that work with the help of the Alaska Energy Authority (AEA). Ormat has put its own capital into this project and is looking to engage in a power purchase agreement so it is secure in being able to sell that power in the long term.

MR. THOMSEN invited committee members to join Ormat during its 2011 core drilling activities [slides 15-17]. Results from the past core drilling have been encouraging - the shallow water shows a mixing of geothermal fluids and the geochemistry indicates a very high temperature resource. Ormat wants to continue slim hole drilling and hopes to drill a full-size production well in 2012, which will delineate whether this is a commercially viable reservoir.

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MR. THOMSEN outlined Ormat's infrastructure needs [slide 18], noting that Ormat is missing about 40 miles of transmission line to the Chugach Electric Association's Beluga plant. Also missing is about 25 miles of permanent road access; potential costs for this are estimated at \$70-\$80 million. He said Ormat looks forward to working with either Chugach Electric Association or the state in evaluating whether infrastructure is a state issue or a project-specific issue.

MR. THOMSEN estimated that the project would produce about 50-100 megawatts of power to the Railbelt at 95 percent

availability [slide 19]. Regarding the likelihood of completion, he said the project is very good technology-wise; Ormat has no doubts in its technology and neither do most financing folks. Resource-wise, he continued, the preliminary geological analysis is very encouraging and Ormat hopes to do additional exploration to prove the reservoir and the size of the resource. Business-wise, he advised that Ormat has run into a unique business climate in Alaska. Ormat needs to somehow secure a power purchase agreement with either one or all of the Railbelt utilities to guarantee this power should Ormat be able to bring it to the line. As a company, Ormat is reaching the very tough decision of how much capital it can outlay without having a guaranteed contract to take that power and at what price.

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MR. THOMSEN reported that the Mount Spurr Geothermal Project has had no permitting roadblocks [slide 21]. The 2010 exploration and drilling programs were permitted by state and federal agencies with no major issues.

MR. THOMSEN related that Ormat representatives have met with all of the Railbelt utilities' chief executive officers (CEOs) and the CEOs like the project and see it as a near-term solution to concerns about natural gas depletion [slide 22]. The communities of Tyonek and Anchorage, communities on the Kenai Peninsula, and the environmental and renewable energy communities are all very supportive, he continued.

MR. THOMSEN pointed out that expenditures are a big issue, even though Ormat is in the unique position of being able to self-finance the project [slide 23]. His company is working with AEA, he said, because Ormat likes the commitment that Alaska has shown this project and the idea of partnering to build this project. Ormat was awarded \$2 million in Round III of AEA grant funding, which Ormat matched with \$2.1 million of its own money. Ormat has been recommended for an additional \$2 million in Round IV, which will require a match of \$3.7 million from Ormat. [The grants] are helping Ormat to continue the exploration while it deals with the business problem of locking in a long-term contract at a fixed price. He added that Ormat typically self-finances its projects and then re-finances a project using term debt after the project is operating as that provides a much better interest rate.

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MR. THOMSEN stated that the cost of power [to the utilities] would be 12-13 cents per kilowatt hour, with a 1.5 percent yearly escalation [slide 24]. Typically in a power purchase agreement, Ormat conveys all of the green attributes to the off-taker/utility. Because it is base-load there are no additional integration costs. Further, the price is guaranteed for the life of the contract, which in this case would be 20-25 years.

MR. THOMSEN touched on Ormat's legislative needs [slide 25]. He said Senate Bill 243, passed by the last legislature, reduced geothermal royalties paid on state lands. Consequently, Ormat's needed power rate in a power purchase agreement was reduced from 14 cents to 13 cents [per kilowatt hour]. Ormat is now looking at other potential incentives that would reduce the rate to 10 cents. For example, he suggested, a 30 percent refundable tax credit lasting for the life of the project would bring the price down by 2.5 cents. Ormat would be happy to have "sunshine" provisions through the RCA so legislators could see the rate of return and the financial model to ensure that the monies are bringing down the price to rate payers and not going to Ormat's bottom line. Ormat is open to other ideas from the committee for how to get to a price that will help develop this project. Other legislative needs would include [an appropriation for the cost] of transmission and additional funding to cost-share the project going into 2012 [slide 26].

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MR. THOMSEN, in response to Representative P. Wilson, said Ormat acquired the project land through a competitive lease sale from the state. Ormat paid a bonus bid on the lease as well, but he said he did not remember the amount of that bid and would get that information to members.

MR. THOMSEN, in response to Representative Foster, reiterated that 12-13 cents per kilowatt hour is the cost of power that Ormat needs today. He related that the Railbelt utilities have indicated that their average cost today is about 8-10 cents. However, he pointed out, the 13 cents is a guaranteed price over a 20-year period. Because the cost of gas over that time period is unknown, Ormat thinks 13 cents is a fantastic price that will be greatly appreciated in the future. He allowed that Ormat is about 2-3 cents away from where it needs to be to have competitive discussions with the utilities.

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MR. THOMSEN, in further response to Representative Foster, said a refundable tax credit would reduce the cost of power about 2.5 cents, which is in the ballpark for competitiveness. This tax credit is through time, he continued, and there are other mechanisms that could get the cost down to 10 cents. He added that Ormat is open to working with members on ideas for locking in a slightly higher price today that will pay huge dividends for constituents in the future.

MR. THOMSEN, in response to Representative Dick, stated that Ormat thinks the Mount Spurr reservoir can probably produce 100 megawatts. However, the project design is to first operate at 50 megawatts so that engineers can monitor the subsurface reservoirs to ensure they are not being over-exploited. If too much water is moved through the system, he explained, there will be a cooling effect because the water will not have enough time to fully heat up. He said he is unfamiliar with "Donlin Creek" and therefore does not know whether an additional 50 megawatts would handle the [prospective gold mine's] energy needs.

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MR. THOMSEN, in response to Representative Herron, said Ormat hopes that, if managed well, the Mount Spurr project will last into perpetuity. Ormat has projects in the Lower 48 and around the world that have exceeded a 30-year lifespan. A well managed reservoir can be sustained indefinitely when 100 percent of the fluid is re-injected and when care is taken to not move too much water or lose water to evaporation. Ormat's experience has been that of running into technical obsolescence long before any changes to the reservoir. In further response, Mr. Thomsen explained Ormat uses a 20-year lifespan for financial modeling and it has many projects for which it has re-negotiated the contract after the 20-year period.

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REPRESENTATIVE HERRON asked why Ormat needs state money if this project is such a good deal.

MR. THOMSEN replied that it is an issue of cost allocation. For example, California has a renewable portfolio standard (RPS) that incentivizes utilities to obtain renewable resources. California's avoided cost is similar to Alaska's because the natural gas used there is in the 4-5 cent range and the utilities are willing to sign contracts for 10 cents for

renewable technologies that meet the RPS criteria. However, he pointed out, Alaska does not have that, so the question here is who tries to bear that difference between 10 and 13 cents today. If Ormat could sign a power purchase agreement today for 15 or 16 cents, it would be able to prove and develop the project on its own dime with no assistance for transmission or drilling. Ormat is trying to get the power purchase agreement price down for the rate payers and to do that there is a gap for which Ormat is asking for state help. If the state cannot help, Ormat must offer the rate payers a higher price and that could or could not make the project viable. Because Ormat has taken AEA money it must show, and is willing to show, its rate of return.

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MR. THOMSEN, in response to another question from Representative Herron, confirmed there is significant geothermal potential elsewhere in Alaska that Ormat has looked at, including Mount Makushin. He pointed out that when looking at a resource, the economic load and viability in each potential project's market must also be considered.

MR. THOMSEN, in response to Co-Chair Seaton, related that in Ormat's experience in the Lower 48, a state typically sets the renewable portfolio standards that it wants utilities to receive from renewable resources. The utilities are obligated, either because they want to do the right thing or because they would incur a penalty, to get those resources into their portfolio and must weigh what the price of punishment is versus complying with what may be more expensive resources. That has created a market that has allowed the addition of a couple cents to these projects to put them on a playing field with typical fossil fuel development.

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MR. THOMSEN, in further response to Co-Chair Seaton, said he thinks the avoided cost number of 10 cents is an AEA number, so he does not know if firm and nonfirm resources are combined in that calculation. However, he continued, Ormat offers a firm source of power and tends to bundle everything - the electrons, the guaranteed capacity, and all the environmental attributes - when marketing a power portfolio. Mr. Thomsen confirmed that it would help Ormat if Alaska's renewable portfolio standards had clearer goals and achievements. However, he cautioned, implementing only an RPS might not solve the Railbelt's unique problem of multiple municipal utilities in a very small area,

coupled with a single plant needing to send one amount of power here and another amount of power there. When developing a project in the Lower 48, Ormat typically has one target utility that services an area, and in cases where there are two utilities they are not interconnected outside of procuring projects.

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MR. THOMSEN, in response to Representative Gardner, allowed that a big volcanic eruption is a risk to both the project and other places such as Anchorage. Volcanic eruptions and earthquakes tend not to be related, he continued. Ormat tends to look at geologically active places because places where earthquakes and volcanoes are prevalent means the geology is good for bringing the needed heat and permeability closer to the surface. Iceland, for example, has many earthquakes and an earthquake can increase the permeability so that geothermal wells start performing better than they had in the past, and so far there has been no instance of an earthquake splitting a geothermal plant in half. Ormat has been able to get bonding and insurance on its plants around the world, he continued. On the island of Hawaii where there is active volcano flow, Ormat has evacuation plans in place for its geothermal plant. Additionally, a Global Positioning System (GPS) has been placed on the head of each of the wells so each could be re-drilled if covered by a lava flow and the plant re-developed.

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MR. THOMSEN, in response to Representative P. Wilson, noted that a unique feature about selling power is that it is usually being sold to a confined market because electricity cannot be bottled up and shopped to the highest bidder in North America. In this particular instance, Ormat is caught between two competitive utilities and driving up the price for rate payers may not be accepted by those utilities. Ormat needs to receive a rate of return that makes a project a good investment. In this case the rate of return is very modest; for example, oil companies look at a 20-year rate of return that may be double-digits. Market forces require Ormat to keep its projects incredibly competitively priced.

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The committee took an at-ease from 1:40 p.m. to 1:42 p.m.

**OVERVIEW(S): Department of Natural Resources - Division of
Parks & Outdoor Recreation, Division of Coastal and Ocean
Management**

[1:42:45 PM](#)

CO-CHAIR FEIGE announced that the next order of business is an overview of the Department of Natural Resources, Division of Parks & Outdoor Recreation and the Division of Coastal and Ocean Management.

BEN ELLIS, Director, Division of Parks & Outdoor Recreation, Department of Natural Resources, noted that his division manages 123 park units, the largest state park system in the nation. Alaska's parks had more than 5 million visitors in 2010, he reported, with most of those visits from Alaskans. The division's mission is "to provide recreational opportunities and to conserve and interpret natural, cultural, and historic resources for the use, enjoyment, and welfare of our people." The division's vision is one of "an affordable and accessible system of parks that provide diverse, safe, year-round, high quality, family-oriented outdoor recreational experiences." The division is comprised of six statewide programs: parks and outdoor recreation management, design and construction, history and archeology, boating safety, trails, and administration and grants. There are 99 full-time and 38 seasonal employees, as well as about 700 park volunteers. Headquarters are located in Anchorage and offices are located in Fairbanks, Delta Junction, Wasilla, Soldotna, Seward, Homer, Haines, Sitka, Ketchikan, Kodiak, and Dillingham.

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MR. ELLIS said Alaska's state park system covers 3.3 million acres. The Parks and Outdoor Recreation Management Program focuses on resource management and protection, public safety, facility maintenance, commercial use permits, fees, and contract management of the parks. There are 2,500 campsites, 37 boat launches, 128 trailheads and 700 miles of trail, 73 public use cabins, 43 scenic overlooks, and 400 restrooms. The division's management budget of \$9.2 million is comprised of about \$5.7 million or 62 percent of state general fund dollars, \$2.5 million or 27 percent of user fees paid directly to the division, and 11 percent from other funding sources such as federal grants and payments from other agencies requesting the division's assistance in managing resources. He added that 80 percent of the 5 million visits were from Alaskans. Regardless

of political persuasion or economic or social status, Alaskans are passionate about experiencing their state's outdoor recreational opportunities. The division has the largest volunteer program in the state - for every paid hour of work in the division, three hours of volunteer time are provided.

MR. ELLIS related that the division's professionals in Design & Construction provide department-wide services for project design, engineering, and construction management, including roads, rest areas, visitor centers, trails, subdivisions, mining reclamation, bridges, boardwalks, boats, and restrooms. This section is the only section outside of the Department of Transportation & Public Facilities with unlimited contract authority on construction projects. Additionally, this section supports the interpretive programs, education, displays, brochures, publication, and maps.

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MR. ELLIS explained that the Office of History & Archeology administers the state's federally funded historic preservation program. This section maintains historical site records, conducts research, provides training and educational materials, protects cultural resources through project review and technical services, and provides grants to local government and others.

MR. ELLIS highlighted the success of the primarily federally funded Office of Boating Safety, reporting that the "Kids Don't Float Lifejacket Loaner Program" is a keystone project of this office. Under a collaborative partnership with the Department of Health and Social Services, U.S. Coast Guard, Alaska Safe Kids, and local sponsors, 565 loaner board jacket stations have been provided in 202 communities. The division has provided almost 31,000 of the lifejackets that have been supplied to date. The "Kids Don't Float School Program" has provided education to more than 78,000 Alaskan students and 19 Alaskan children have survived a water emergency as a result of wearing a lifejacket provided by the loaner program.

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MR. ELLIS reported that the "Alaska Trails Office" oversees the recreational trails program, the Alaska Trails Initiative, grant programs with combined federal funding of \$2.5 million, and the more than 90 projects that were completed in the last 4 years. This section manages about \$250,000 in snow machine receipts through the SnowTRAC program, and provides maps and expertise on

trails throughout the state. Some 700 miles of trails have been recorded in Alaska's state parks and through the "Snowmobile Trail Grant Program" the department funds the grooming of approximately 1,000 miles of snow machine trails covering multiple land ownerships.

MR. ELLIS reported that the "Administration and Grants Section" oversees grants for outdoor activities throughout the state. "The Recreational Trails and the Alaska Trails Initiative grants are federal funds for the development and maintenance of recreational trails," he continued, "and the Land and Water Conservation funds are used by local governments to improve access to outdoor activities throughout Alaska."

MR. ELLIS said "Forest Legacy and Coastal Wetlands grants are used to protect and preserve working forests and secure public lands and access to public lands while protecting riparian habitat. Other grants include the Historic Preservation Fund, and SnowTRAC." Grant projects under this section include Nugget Falls in Juneau, a [\$198,200] Alaska Trails Initiative project; Sitka Cross Trail, a \$1.1 million Alaska Trails Initiative; Girdwood Nordic Ski Trails, a \$50,000 project; and Ester Dome Singletrack, a \$100,000 project in Fairbanks.

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MR. ELLIS outlined areas of excellence. The long-envisioned South Denali Visitor Center is becoming a reality, he reported. The center is a cooperative endeavor between the division, the U.S. National Park Service, the Department of Transportation & Public Facilities, the Matanuska-Susitna Borough, and local businesses, that will provide year-round activities, including interpretation, hiking, camping, non-motorized summer trails, and motorized and non-motorized winter trails. An analysis by the Institute of Social and Economic Research estimates the center will provide Parks Highway communities with \$7.6-\$18.6 million per year in related employment income and \$17.8-\$44.8 million in tourism expenditures. The division's design and construction section, he continued, completes an average of \$5-\$7 million in projects per year, and completes 95 percent of the projects within three years. This efficiency, accountability, and professional integrity gets funding on the ground to the private sector for consultants and contractors.

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MR. ELLIS pointed out that Alaska's recreational boating fatalities have dropped since 1998 when the Office of Boating Safety was established, with a decrease of 27.6 percent over the last 10 years. "While any fatality is one too many, Alaska experienced 11 recreational boating deaths in 2010, the fewest ... in 40 years," he said. Last year the office received the Meritorious Public Service Award from the U.S. Coast Guard. It also received the Compass Award from the National Association of State Boating Law Administrators for its work in cold water immersion education programs.

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MR. ELLIS related that the "Alaska Trails Office" is organizing the first biennial "Trail Rondy" this coming April, a three-day event that will include training, discussions, hands-on demonstrations, and vendors focused on the needs of Alaska's trail community. "It will be an opportunity for trail enthusiasts, planners, and builders to learn new skills, test the latest equipment, and share ideas about how to make Alaska trails the best in the nation." Turning to the Office of History & Archaeology, Mr. Ellis noted that the services of this office enabled the state to produce comprehensive historic reports last year on 13 rivers in the Kuskokwim region. These reports will be used by the state to apply for Recordable Disclaimer of Interest with the U.S. Bureau of Land Management, which will clear the way for state title to these navigable waters and remove any challenges to state ownership. Additionally, in 2010 this office awarded 16 historic preservation grants covering 13 communities throughout Alaska.

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MR. ELLIS turned to the area of issues and challenges. He paraphrased from the following written remarks:

Issues and Challenges

- We have to do a better job in keeping our parks safe, accessible and open to all visitors. To do so will require a strategy (both short- and long-term) to address the \$65.8 million we have in deferred maintenance.
- Our Office of History and Archaeology continues to be challenged by the volume, size and complexity of state and federal projects to be reviewed for impacts to cultural resources. In 2010, more than 3,000 projects

were reviewed, and since FY2000, there has been a 50% increase in project reviews.

- A significant challenge to the Alaska Trails Office is the possible removal of the Recreational Trails Program from the Federal Highway Transportation Bill, now up for reauthorization in Congress. If the program is not re-authorized it is likely that our division will see a significant increase in deferred maintenance of state park trails that traditionally were met by the federally-funded program.
- Despite progress, Alaska still has one of the highest boating fatality rates in the nation.

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MR. ELLIS continued:

And finally, I sense we have an issue of image. We have hard working, dedicated professionals throughout the division – rangers, engineers, historians, trail crew, maintenance workers, administrative staff and hundreds of volunteers. They are committed to our organization's goal and mission. They put their heart and soul into their work and are passionate about providing the best outdoor recreational experience for Alaskans and our visitors. But that is not enough. We need to do a better job at being open, fair and balanced in our decisions. We need to be more consistent with our message. We need to be more responsive to the public and to this body. And, we must be creative in finding the solutions to our deferred maintenance crisis and improving our image throughout the state. We have in our stewardship the most vast and breathtaking state park system in the nation. We must not fail in this responsibility. With your guidance and support, I am confident we can improve on an already great state park system, one Alaskans are proud to say "This is MY Alaska!"

Thank you for the opportunity to testify before you. I encourage you and your colleagues to visit our state park system with me as your time allows. As today is my two-week anniversary as director, I have asked Deputy Commissioner Ed Fogels who is here today, as well as some of my leadership staff in Anchorage to be online to assist in answering any questions you may

have regarding the Division of Parks & Outdoor Recreation.

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CO-CHAIR SEATON asked if the department is considering an additional position, such as an assistant park ranger, for the Kachemak Bay State Park as it has long been constrained to only one person. He also remarked that there is a lot of deferred maintenance at the Kachemak Bay State Park. He also asked if Alaska Trails works in conjunction with the Department of Transportation & Public Facilities (DOT&PF), specifically in relation to Cooper Landing. The entire area of Cooper Landing and a quarter-mile section of the road going toward the Russian River are very dangerous, there is no shoulder.

MR. ELLIS offered to obtain that information for the committee.

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REPRESENTATIVE P. WILSON, regarding the Regional Advisory Committees (RAC) at the federal level, asked if any of that spills out to the state forests.

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ED FOGELS, Deputy Commissioner, Department of Natural Resources (DNR), said that the trails and parks staff do work with other jurisdictions. Although he couldn't say whether they have worked specifically with the Bureau of Land Management (BLM) RAC, he said he didn't see any reason why they couldn't.

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REPRESENTATIVE GARDNER requested a synopsis of the facts and figures that were presented with the photographs.

MR. ELLIS said that he would provide committee members with the information.

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REPRESENTATIVE MUNOZ recalled that the U.S. Forest Service (USFS) has a policy of taking out cabins that have fallen into disrepair, although those cabins serve as an emergency shelter or as a marker. She asked if the [Division of Parks and Outdoor Recreation] has a similar policy.

MR. FOGELS answered that he didn't believe there have been any such situations on state park land. He opined that the only reason he would imagine a cabin that's in disrepair would be removed is if it's a hazard to the public or a public safety issue. He clarified that there's no formal policy regarding the removal of cabins that are in disrepair. In further response to Representative Munoz, Mr. Fogels related that DNR has been in discussions with the Lieutenant Governor's Office regarding the possibility of using the House of Wickersham as a potential residence for the Lieutenant Governor. In even further response to Representative Munoz, Mr. Fogels specified that part of the \$250,000 budget item last year was expended for renovations within the house and some funds may be scheduled for use to landscape the exterior. He offered to get further information to the committee.

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MR. ELLIS mentioned that he visited the House of Wickersham last week. He related his understanding that the \$250,000 was appropriated for rehabilitation work, some of which has begun while other work is yet to come. He, too, mentioned that there are some funds to landscape the property. The notion currently is to move forward with the rehabilitation work with the assumption that the house will continue to be used in the same fashion it currently is. In further response to Representative Munoz, Mr. Ellis agreed to provide information regarding the status of the new state cabins at the Eagle Beach area in Juneau.

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CO-CHAIR SEATON requested an update on the remote yurt program.

[2:10:39 PM](#)

CLAIRE LECLAIR, Division Operations Manager, Division of Parks and Outdoor Recreation, Department of Natural Resources, stated that the remote yurt program in Kachemak Bay State Park has been very popular. She explained that it's a five-year contract through a request for proposals (RFP) process. The initial business owner went through five years and now the division has an RFP out for potential bidders. She recalled that the deadline for it is nearing.

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The committee took an at-ease from 2:11 p.m. to 2:16 p.m.

[2:16:27 PM](#)

CO-CHAIR FEIGE announced that the committee would now hear from the Division of Coastal and Ocean Management.

[2:16:38 PM](#)

RANDY BATES, Director, Division of Coastal and Ocean Management (DCOM), Department of Natural Resources, began by introducing various staff from DCOM who were in attendance. He then informed the committee that DCOM is the lead agency for the Coastal Impact Assistance Program and the Alaska Coastal Management Program. The division also has the function of tracking federal initiatives that impact Alaska's coasts and oceans.

[2:18:30 PM](#)

MR. BATES directed attention to the slide entitled "Alaska Coastal Impact Assistance Program (CIAP)". He explained that CIAP is a one-time federal funding opportunity for oil and gas producing states. The federal funds were to mitigate the impacts of Outer Continental Shelf oil and gas activities. During the course of the program, Alaska is allocated to receive \$79.4 million. Further, Alaska is one of six states receiving this funding. The DCOM is working with the sister agencies of the Department of Commerce, Community & Economic Development (DCCED) and the Alaska Department of Fish & Game (ADF&G) to implement the CIAP and its various projects, some of which are projects that were solicited from the public - the Western Alaska Salmon Coalition and those legislatively named municipalities and coastal resource service areas to implement their projects. This program employs two full-time staff through DCOM and utilizes three full-time employees within the division. Mr. Bates remarked that the division is managing a large amount of money very well. He characterized the program as an incredibly valuable program with great benefits. He said he is pleased with the opportunities this program provides and the projects completed, in progress, or planned for the future.

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MR. BATES, referring to the slide entitled "Alaska Coastal Impact Assistance Program (CIAP)", pointed out that the smaller

pie chart illustrates the entire CIAP distribution that totals \$79.4 million. By federal law, the smaller portion of the small pie chart, which totals \$27,792,606, is the amount that's directly allocated to the coastal political subdivisions. Those are the coastal political subdivisions that are located near a producing lease or well. The remainder of the smaller pie, which totals \$51,617,839, is the amount that's directly allocated to the state. Two years ago, the legislature allocated the funds to the following portions of the larger pie chart: the Western Alaska Salmon Coalition, State Agency Initiated Projects, named municipalities and service areas, and for publicly solicited projects.

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MR. BATES then turned to the map entitled "Coastal Zone Boundaries of Alaska Index Map." The map illustrates the reach of the coastal zone program per the federal definition. He informed the committee that the Alaska Coastal Management Program (ACMP) is a federally authorized, voluntary program whereby the state has an opportunity to oversee the responsible development of coastal uses and resources, including federal activities within the coastal zone and those federal activities on the Outer Continental Shelf and on federal lands that might impact the state's uses and resources. The primary tool used by the division to implement this program is the consistency review process. Proposed resource development projects such as an oil exploration project, a mine project, and a river or lake project would all go through the consistency review process and be reviewed for compliance with the statewide standards and district enforceable policies. The statewide standards and district enforceable policies are supplemental authorities the state has to ensure compliance and protection of the state's resources while promoting an economic project. Mr. Bates explained that the state chose a network structure for the ACMP whereby the state departments participate in the review of projects as well as the implementation of programs. The other valuable component to the structure of the program is the local component in which several coastal municipalities and service areas voluntarily participate in the implementation of the consistency review process. Therefore, local knowledge, perspective, and input are provided on the projects.

[2:23:47 PM](#)

MR. BATES moved on to the pie chart entitled "ACMP Funding," which relates from where the ACMP funding comes. The ACMP is

primarily funded with federal funds. In fact, ACMP receives about \$2 million in direct federal funds for implementation of the program and \$536,000 is dedicated toward program improvements. The ACMP also receives a general fund (GF) match of about \$4.5 million to implement the entire program. Mr. Bates then moved on to the pie chart entitled "ACMP Funding Allocation," which illustrates how the \$4.5 million is distributed. The coastal districts and the state agencies implementation funds together total about \$1 million, which includes the required match. The division implements the ACMP, which amounts to a little over \$2 million.

[2:25:34 PM](#)

MR. BATES informed the committee that DCOM has 31 full-time employees of which 16 perform project reviews for resource development projects, 4 provide planning services, 3 provide publications and overall communication, and 8 administrative and other program staff. The division has a total of 33 employees. He characterized DCOM as small but effective. The funding translates into about 28 coastal district coordinators in the regions throughout the state. The division provides funding to each community that provides a coastal coordinator for implementing the program at the local level. He noted that various state agency staff implement the coastal program through their agencies.

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MR. BATES turned to the issues related to ACMP that will come before the legislature. There is a sunset provision within an uncodified portion of Senate Bill 102, which was passed in 2005. That uncodified section terminates the ACMP on July 1, 2011, unless legislative action is taken. Mr. Bates emphasized that this is different than a typical sunset clause; there is no grace period. If no legislation extending the ACMP is passed this session, the ACMP will terminate July 1, 2011. As part of the sunset action, the Division of Legislative Audit has performed a special audit on the ACMP. The audit was intensive and sets the stage for an overall understanding of the program and will facilitate good discussion. In response to the audit and the ACMP sunset provision, the governor has introduced HB 106 and SB 45, which would extend the termination date of the ACMP by six years until 2017. If such legislation is passed, the effectiveness of the ACMP would move forward with the implementation of the program with an opportunity in 2017 to re-evaluate the effectiveness of the ACMP. He then pointed out the

following valuable improvements to the ACMP. The ACMP is working toward regulation revisions to the consistency review process, which once implemented should facilitate streamlined increased effectiveness of the aforementioned process. The "ABC List" is an expedited list of consistency reviews, which would be a tool to alleviate some of the burden on the smaller operators. Expedited reviews for certain projects, such as those that are de minimis or routine in nature, would remove them from the full review process and streamline the actions and allow the division to focus more on the complex, non routine projects. The last improvement is the unified permit, which is an ongoing, long-term capital improvement project (CIP) that has been in the budget the last couple of years. The DNR unified permit is managed through the Division of Mining, Land and Water technical services and is meant to integrate and automate division business processes and help DCOM, the Division of Mining, Land and Water, and other participants to be more effective and efficient in regard to how the permitting process is managed. The goal is to be public, transparent, and share information quickly.

[2:31:08 PM](#)

MR. BATES, returning to the topic of audits, told the committee that the Division of Legislative Audit began the audit of the ACMP this summer and should be finished in mid-February 2011. The Division of Legislative Audit staff did and continues to put in a great deal of time and effort to understand ACMP and provide an objective and comprehensive evaluation of the program. The DCOM also put in a lot of time as it provided the Division of Legislative Audit staff all the resources it needed, including complete access to [DCOM] computers for information. Mr. Bates said, "The interrelationships of laws, the agencies, the participants, and the issues that are associated with the ACMP present significant challenges for anyone wishing to develop a deep understanding of the ACMP. Its varied connections and nuances increase that challenge exponentially." Therefore, Mr. Bates opined that the audit report is a critical aspect of the discussion this session in terms of informing members of the issues and the basics of the ACMP as well as sharing the audit's findings regarding how the ACMP is operating and what improvements can or cannot be made. The audit is being released in two parts, the first of which is already available and the second should be finalized in mid-February 2011.

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MR. BATES then turned to the findings in the first part of the audit. He highlighted the following findings:

The requirements for establishing coastal district enforceable policies are consistent with the statutes and intent of the legislature that the enforceable policies be clear, concise, non duplicative, and related to matters of local concern.

For the approved coastal district plans, 80 percent of the subsistence use area designations were approved.

DCOM offers grants to coastal districts to help defray the cost of developing the information for the establishment of these subsistence use designations as well as the habitat designations.

[2:34:44 PM](#)

MR. BATES noted that one of the questions asked in the special audit was regarding whether the changes in 2003 limited the state's rights under the Coastal Zone Management Act of 1972 (CZMA). The audit report found that the ACMP changes haven't diminished the state's rights under the CZMA. He then turned to an area in which [DCOM] has significant concern in the first part of the audit, which is in regard to the evaluation of whether the ACMP is meeting its objectives or not. The audit doesn't consider the entirety of the ACMP authorities and how those collective authorities contribute to the overall robust and comprehensive approach to management and resource protection under the ACMP, particularly related to habitat. The other authorities included or considered under the ACMP, such as the DEC water quality authorities, the ADF&G fish passage authorities, the various DNR authorities for managing wildlife transit or other impacts, and ACMPs statewide standards and district enforceable policies. All those authorities, he emphasized, must be considered when evaluating whether the ACMP is meeting its objectives. The aforementioned wasn't performed as part of the audit, rather the audit merely reviewed the habitat standard and evaluated whether ACMP is meeting its objectives. Therefore, he opined that the audit erroneously drew a poor conclusion.

[2:36:46 PM](#)

MR. BATES concluded by reiterating that the ACMP is a valuable program that should be continued. The ACMP is an opportunity

for the state to apply its enforceable policies, state standards, and state laws to activities on federal lands as well as the Outer Continental Shelf. Furthermore, the ACMP considers and takes into account local knowledge as well as solicits local input. The aforementioned, he emphasized, is critical for the state to make reasoned designs on such significant issues as resource development and protection.

2:37:30 PM

CO-CHAIR FEIGE inquired as to the result if the legislature fails to act in extending the ACMP.

MR. BATES answered that the ACMP would be terminated. Therefore, the state would not be operating with an approved coastal management program at the federal level. The [ACMP] statutes would be repealed and the regulations removed. Therefore, the state would no longer have a program whereby the state can comment and have a true role in decision-making on federal agency activities, such as in a former BLM oil and gas lease sale on the Outer Continental Shelf, a Tongass timber sale, or a BLM petroleum leasing. The state, he stressed, would not have formal standing to comment and influence decisions. Furthermore, the ACMP is one of the major tools the local coastal districts use to have influence and input on state and federal permitting.

2:39:11 PM

CO-CHAIR SEATON inquired as to how many municipalities, after the ACMP was rewritten and some said participation by local districts was severely limited, incorporated their enforceable policies into local ordinances such that the developer would have to go through the consistency review process with the state as well as the municipal permitting process for the exact same items.

MR. BATES explained that municipalities with Title 29 authorities require permits for any resource development project that has been identified within their local code. To his knowledge, there are two or three municipalities that have taken the former district enforceable policies and simply incorporated them into their municipal code. However, it does not change the permitting scheme an applicant would have to go through. An applicant would still have to receive its consistency determination on any state permits and, as would have been the case prior to the rewrite in 2003, the applicant would also have

to obtain the local borough permits for things such as conditional use. Although some of the standards [the two or three communities] now include are former enforceable policies, there is no different permitting scheme than prior to 2003. Mr. Bates clarified that is from his perspective, and thus suggested that it may be appropriate to obtain the perspective of the local representatives who conduct these permit reviews.

[2:42:05 PM](#)

REPRESENTATIVE GARDNER asked if the ACMP had any role with regard to the CD5 lease and the bridge that was denied.

MR. BATES responded that although he is familiar with the details of that project, he didn't know whether it went through consistency review. Therefore, he offered to provide that information to the committee upon a bit of research. However, he remarked that if the project was located in the coastal zone, it was reviewed for consistency. Further, if the project was found consistent it moved forward with the other agencies that might be permitting.

[2:43:12 PM](#)

MR. BATES, in response to Representative Herron, confirmed that he attended the DNR directors planning retreat last week. In further response to Representative Herron, Mr. Bates also confirmed that the ACMP was discussed in various forums amongst the directors and those it affects. There were also discussions regarding how the departments and states will move forward [on the ACMP]. However, the ACMP wasn't discussed in great detail in terms of strategy or content.

[2:44:04 PM](#)

REPRESENTATIVE HERRON informed the committee that the RSA in his region has been vacant for seven months. He asked if there's a reason why that position wasn't filled and why there wasn't a short-term contract to provide support.

MR. BATES related his understanding that Representative Herron represents a city within a coastal resource service area (CRSA). There have been two relatively long-term vacancies for the two program directors/executive directors who serve those areas. The DCOM has been working with the Bering Straits CRSA to get their books and process in order so the division can continue to fund them. The DCOM is also working with the Cenaliulriit CRSA

to ensure it can hire a program director. He offered his understanding that both of the aforementioned CRSAs are close to hiring directors.

2:45:25 PM

REPRESENTATIVE HERRON asked if there was funding available for any coastal district the first quarter of 2011.

MR. BATES explained that the funding is usually provided beginning with the fiscal year in July. Unfortunately, this year DNR, the lead agency, and DCCED, the granting agency, were negotiating the RSA and how to service and provide funds to the coastal districts. The discussion and resolution of those issues took until September. Although the coastal districts didn't have specific funding in place to implement coastal management, that funding has been provided in full so that the districts have not been penalized due to DNR's internal issues.

2:47:07 PM

REPRESENTATIVE HERRON recalled that Mr. Bates testified that 80 percent of all subsistence proposals were approved. He inquired as to when that occurred.

MR. BATES explained that was one of the findings within the ACMP audit part 1. The finding was that of the approved coastal district plans, of which there are 25, 80 percent of the designated areas that were proposed by those plans were approved. He stated that the finding is supported by DCOM's records. In further response to Representative Herron, Mr. Bates further explained that it's the transitional plans that were required as a result of House Bill 191 of 2003, which mandated all existing coastal districts rewrite their district plans to comply with the new laws. There were 33 district plans in place, of which 5 districts chose not to participate in the program. Twenty-eight of the thirty-three coastal districts revised their plans, of which twenty-five were approved and three are pending. The conclusions drawn in the ACMP audit part 1 are related to the transitional plan amendment process. Therefore, the numbers are being drawn from the 25 plans, the number of approved designated areas during the plan revision time.

REPRESENTATIVE HERRON said that he would like to address a subsistence question to the department and have the answer provided to all members. In response to Co-Chair Seaton, Mr.

Bates directed members to page 22 of the ACMP audit part 1, which read: "Further analysis shows that approximately 80 percent of the subsistence use areas were approved." That's the statement of the Legislative Audit Division, and thus it may be appropriate to have that division answer questions with regard to process and conclusions.

[2:51:59 PM](#)

REPRESENTATIVE HERRON commented that he held the impression that the governor was going to ask for a one-year extension; therefore he inquired as to why six years was proposed.

MR. BATES confirmed that HB 106 and SB 45 specify six-year extensions. From his perspective of managing the program and undergoing an intensive audit, Mr. Bates opined that a one-year extension is not productive or effective. A one-year extension merely delays the discussion of the program. He informed the committee that the initial discussions included terminating the sunset date completely or extending the program. The governor has chosen to introduce legislation with a six-year sunset provision, which is what the division supports. In the Senate there is legislation that only grants a one-year extension. Again, he opined that there isn't much to gain from a one-year extension of a valuable program for which the staff needs some stability in terms of their jobs and their effectiveness. He emphasized his desire to provide the state and DCOM stability for which a six-year extension seems reasonable. If, in 2017, the ACMP can't justify its existence and the value of the program, the legislature should debate it.

[2:54:08 PM](#)

REPRESENTATIVE HERRON recalled the governor's "State of the State" address related his challenge to take on the federal government. Ironically, the parallel challenge is having legitimate local input on any ACMP project.

[2:54:56 PM](#)

REPRESENTATIVE FOSTER inquired as to when the Bering Straits CRSA will be funded and have a director.

MR. BATES pointed out that the only outstanding issue for the Bering Straits CRSA is the completion of its plan. In fiscal year 2010, ACMP funds paid for the completion of the Bering Straits CRSA plan in accordance with the commissioner's finding.

The DCOM is working with a consultant to finalize that plan. As soon as the plan is finalized and can be shared with the federal government, funding will flow to the district and the hiring of the director. Mr. Bates said the he expects resolution within a month.

[2:56:55 PM](#)

REPRESENTATIVE FOSTER related that to his knowledge the subsistence proposals for the Bering Strait area were denied. He requested that Mr. Bates confirm that.

MR. BATES agreed to follow up on that matter.

[2:57:25 PM](#)

MR. BATES, in response to Representative Gardner, said that he would be happy to provide members with a copy of the ACMP audit part 1, and noted that it's also available on DCOM's website.

[2:58:11 PM](#)

CO-CHAIR SEATON referred to the December 7, 2010, federal register 76101 on the polar bear critical habitat, which specifically cites: "the designation of critical habitat under the act provides for the protection of critical habitat in the absence of adequate protection of habitat under the State of Alaska statutes ... and the CZMA." He then asked if the federal government designated critical habitat for polar bears, in part, because they found the ACMP to be weak and not protect habitat. He further inquired as to the state's response to designating the polar bear habitat as critical.

MR. BATES offered to look into that issue and get back to the committee on it. He said that he isn't familiar enough with the submission of the Endangered Species Act (ESA) listing under the CZMA.

CO-CHAIR SEATON clarified that he is asking because when the act was changed, it was for streamlining, which meant reducing the number and effectiveness of local district policies. He related concern that now under the guise of further streamlining consistency review regulations those regulations are being reviewed. He expressed interest in determining whether the attempt to further streamline is to further reduce the effectiveness of local participation.

3:00:48 PM

CO-CHAIR FEIGE informed the committee that he attended the Meet Alaska Conference in Anchorage, which was an opportunity for members of the resource industry as well as smaller suppliers that support particularly the oil and gas industry. There is a lot of concern on the part of industry.

3:01:46 PM

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 3:02 p.m.