

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

February 3, 2012

1:05 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

Representative Sharon Cissna

COMMITTEE CALENDAR

HOUSE JOINT RESOLUTION NO. 26

Urging federal agencies to work with the Alaska Department of Fish and Game, Southeast Alaska Native leaders, and other interested parties to establish strategies and plans for the sustainable management of the reintroduced sea otter population of Southeast Alaska.

- HEARD & HELD

HOUSE BILL NO. 276

"An Act providing for a credit against the oil and gas production tax for costs incurred in drilling certain oil or natural gas exploration wells in the Nenana Basin."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HJR 26

SHORT TITLE: SEA OTTER MANAGEMENT

SPONSOR(s): REPRESENTATIVE(s) P.WILSON

03/31/11 (H) READ THE FIRST TIME - REFERRALS
03/31/11 (H) RES
02/03/12 (H) RES AT 1:00 PM BARNES 124

BILL: HB 276

SHORT TITLE: OIL/GAS PRODUCTION TAX CREDITS: NENANA

SPONSOR(s): REPRESENTATIVE(s) THOMPSON, DICK, MILLETT, TUCK,
MILLER

01/17/12 (H) PREFILE RELEASED 1/13/12
01/17/12 (H) READ THE FIRST TIME - REFERRALS
01/17/12 (H) RES, FIN
01/30/12 (H) RES AT 1:00 PM BARNES 124
01/30/12 (H) Heard & Held
01/30/12 (H) MINUTE(RES)
02/01/12 (H) RES AT 1:00 PM BARNES 124
02/01/12 (H) Heard & Held
02/01/12 (H) MINUTE(RES)
02/03/12 (H) RES AT 1:00 PM BARNES 124

WITNESS REGISTER

ARTHUR MARTIN, Intern
Representative Peggy Wilson
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Introduced HJR 26 on behalf of the prime sponsor, Representative P. Wilson.

ROSITA WORL, PhD, Chair
Federal Indian Policy Committee
Alaska Federation of Natives (AFN)
Juneau, Alaska

POSITION STATEMENT: Testified on HJR 26.

EDWARD THOMAS, President
Central Council of Tlingit and Haida Indian Tribes of Alaska
Juneau, Alaska

POSITION STATEMENT: Testified on HJR 26.

CARRIE SYKES, Manager
Business and Economic Development Department
Central Council of Tlingit and Haida Indian Tribes of Alaska
Juneau, Alaska

POSITION STATEMENT: Testified on HJR 26.

KIRK HARDCASTLE
Commercial Fisherman
Juneau, Alaska

POSITION STATEMENT: Testified on HJR 26.

PHIL DOHERTY, Executive Director
Southeast Alaska Regional Dive Fisheries Association
Ketchikan, Alaska

POSITION STATEMENT: Testified in support of HJR 26.

DENNIS WATSON, Mayor
City of Craig
Craig, Alaska

POSITION STATEMENT: Testified in support of HJR 26.

JAMES ANDERSON
Craig, Alaska

POSITION STATEMENT: Testified on HJR 26.

WILLIAM C. BARRON, Director
Division of Oil & Gas
Department of Natural Resources
Anchorage, Alaska

POSITION STATEMENT: During the hearing on HB 276, discussed the process of exploration licenses, leases, and units, and answered questions regarding state incentives.

ACTION NARRATIVE

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CO-CHAIR ERIC FEIGE called the House Resources Standing Committee meeting to order at 1:05 p.m. Representatives Munoz, Gardner, Foster, Seaton, and Feige were present at the call to order. Representatives Dick, Kawasaki, P. Wilson, and Herron arrived as the meeting was in progress. Representative Cissna was also present.

HJR 26-SEA OTTER MANAGEMENT

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CO-CHAIR FEIGE announced that the first order of business would be HOUSE JOINT RESOLUTION NO. 26, Urging federal agencies to work with the Alaska Department of Fish and Game, Southeast

Alaska Native leaders, and other interested parties to establish strategies and plans for the sustainable management of the reintroduced sea otter population of Southeast Alaska.

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ARTHUR MARTIN, Intern, Representative Peggy Wilson, Alaska State Legislature, on behalf of Representative P. Wilson, prime sponsor, reviewed the differences between the original bill and the proposed committee substitute (CS), Version 27-LS0717\B, Bullard, 1/27/12. He explained that Version B would update the third whereas clause on page 1 as follows [new text underlined, deleted text bracketed] [original punctuation provided]:

WHEREAS more than 10,560 [5,800] sea otters were observed in 2003, and a 2010-2011 [2010] aerial survey by the United States Fish and Wildlife Service revealed 20,000 [more than 11,000] sea otters, for an approximate annual growth rate of 12 percent in southern Southeast Alaska and four percent in northern Southeast Alaska [13 percent]; and

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MR. MARTIN testified that HJR 26 would "encourage the U.S. Secretary of the Interior and other appropriate federal agencies to work with Alaska Department of Fish & Game, Southeast Alaska's Native leaders, and other interested parties in the state to establish strategies and plans for sustainable, long-term management of the reintroduced sea otter populations of Southeast Alaska." He said the resolution would also "encourage federal authorities to consider broadening the scope of allowable uses of sea otters taken for subsistence purposes to include the use, transfer, and sale of intact sea otter pelts."

MR. MARTIN next provided a history of sea otter populations, stating that sea otters almost disappeared completely from North America due to commercial harvesting between the 18th and 20th centuries. This led to protection of the species under the Marine Mammal Protection Act, which transferred management of sea otters from the State of Alaska to the U.S. Fish and Wildlife Service. Sea otters were reintroduced into Southeast Alaska from 1965 to 1969 so that the protected mammals would reach an optimal sustainable population range. The U.S. Fish and Wildlife Service created a management plan in 1994 that was to be reviewed annually, revised at least every three to five years, and modified subject to new findings, changes in species

status, policy changes, or congressional direction. However, he said that during his research he could not locate any revisions since that original plan of 18 years ago.

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MR. MARTIN explained that today sea otters have rebounded because of a general harvesting moratorium set by the U.S. Fish and Wildlife Service, with exception being Alaska Natives. Sea otter numbers are rising at an estimated 10-12 percent a year, with last year's count being approximately 20,000 sea otters, and [a projected] 28,000 animals in three years. These population increases have become a serious issue of concern to commercial and subsistence fishing because of competition between the sea otters and local residents for the resources. Although sea otters are among the smallest of marine mammals they are the largest of the North American weasel family; male sea otters in Alaska may exceed 100 pounds. Sea otters have no blubber for warmth so they must constantly eat, consuming up to 23 percent of their body weight daily in crab, abalone, sea urchins, sea cucumbers, clams, and other shellfish that humans rely upon for commercial and subsistence uses.

MR. MARTIN said that altogether sea otters consume approximately 253,000 pounds of food per day, which translates into a loss of commercial and subsistence fisheries in Alaska. According to a [November] 2011 report by the McDowell Group [entitled "Sea Otter Impacts on Commercial Fisheries in Southeast Alaska"], sea otter predation on red sea cucumber, geoduck clam, red sea urchin, and Dungeness crab fisheries have directly and indirectly cost the Southeast Alaska economy \$28.3 million since 1995. He maintained that the exponential growth of sea otter populations is directly linked with the demise of recreational and commercial Dungeness crab fisheries in Orca Inlet and eastern Prince William Sound. Over a dozen fishery harvest areas in Southeast Alaska have been closed down or negatively affected by sea otters, he said.

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MR. MARTIN noted that under the 1972 Marine Mammal Protection Act, Alaska Natives are denied the customary and traditional right to sell intact sea otter pelts to non-Natives. Now that the reintroduced sea otter populations in Southeast Alaska are healthy and growing, it is time that the Native peoples are given back their customary and traditional right, he said. This would continue to grow their cultural heritage, as well as help

maintain ecological balance while expanding their economic opportunity.

MR. MARTIN said the passage of HJR 26 would serve the dual purpose of encouraging a renewed discussion on the possibility of state management of sea otters, as well as a renewed discussion on the use, transfer, and sale of intact sea otter pelts. He maintained that this would help Southeast Alaska's municipalities, towns, and villages as they face substantial challenges in developing broader economic opportunities for their residents. He said HJR 26 would send a strong message to federal authorities that a new management structure is desperately needed to manage Southeast Alaska sea otter populations. Additionally, the resolution would also serve as a redress to Native people's customary and traditional right to use, transfer, and sell intact sea otter pelts.

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REPRESENTATIVE HERRON asked what the thought process was in the late 1960s to re-introduce sea otters without a management plan.

MR. MARTIN reiterated that commercial harvesting in the 18th, 19th, and 20th centuries nearly wiped out sea otters. He related that prior to arrival of the Russians an estimated one million sea otters were along the North American continent. An international agreement in 1911 protected sea otters and in the 1960s the plan was to reintroduce them into their former regions. The 1972 Marine Mammal Protection Act transferred sea otter management from the state to the federal government. He said he does not know whether the state had a plan. However, once management was transferred to the federal government it was the federal government's responsibility to come up with a plan, which it did in 1994, but the plan was not very specific.

REPRESENTATIVE MUNOZ inquired whether there is any scientific evidence that ties declining herring stocks to sea otter predation.

MR. MARTIN responded that he did not know.

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REPRESENTATIVE GARDNER asked what the role of sea otters is in a healthy marine ecosystem. For example, when there were a million sea otters prior to the Russians, were there healthy populations of crabs, geoducks, abalone, and other mollusks. In

regard to the customary and traditional rights of Natives to use intact sea otter pelts, she inquired about the exemptions under current law and how those would change if the goal of HJR 26 is achieved.

MR. MARTIN replied that there has been a link with sea otters benefitting the ecological environment. Many people attribute sea otter populations to helping the kelp forest by eating sea urchins which eat kelp. However, sea otter populations have now grown exponentially and have become a detriment because they are eating all the resources and once the resources are gone in one region the otters move to another. Their populations have now grown to such a level that they are impacting the economy and hurting the ecological system.

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REPRESENTATIVE GARDNER asked whether there were healthy populations of the sea life on which sea otters prey back when there were one million otters and the Russians had yet to arrive. She further asked what the current number of sea otters is in Alaskan waters.

MR. MARTIN related that the 1994 report by the U.S. Fish and Wildlife Service, as well as the McDowell report, briefly mention that the dive fisheries and the crab fisheries were not as big as they are now, so sea urchins, geoducks, sea cucumbers, and crabs had about 100 years in which to rebound. He related that the McDowell report states that, at this point, if sea otter numbers keep increasing, humans and sea otters will be unable to co-exist because the sea otters will devour all the commercial fisheries and then move on.

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REPRESENTATIVE GARDNER said her question is whether things were in balance back when there were a million sea otters in Alaska. If there are fewer sea otters today, then why are they having a greater impact on their food species, she asked.

MR. MARTIN responded that the question relates back to optimal population range, which was discussed in the 1994 conservation plan. The optimal sustainable population (OSP) level refers to the number of animals which result in the maximum productivity of the population of the species, keeping in mind the carrying capacity of the habitat and the health of the ecosystem. Sea

otters have gone beyond that point, he said. He deferred to other witnesses to further answer the question.

REPRESENTATIVE GARDNER said she is still looking for an understanding of the carrying capacity and the numbers today. She reiterated her question about the exemptions to indigenous peoples for pelts and harvesting and how those would change if the resolution were to achieve its ultimate goal.

MR. MARTIN answered that if HJR 26 were to pass it would hopefully start a discussion among the appropriate state and federal agencies and Alaska Natives to come up with a better management plan and see whether Alaska Natives want to expand their ability to sell intact sea otter pelts to non-Natives. This would go back to the management plan for sea otter populations. The resolution would start a dialogue more than anything else.

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REPRESENTATIVE KAWASAKI inquired whether annual reviews of the 1994 management plan, and revisions at least every three to five years, have happened.

MR. MARTIN responded that it has not been happening as far as he knows from his investigation. While research has occurred by different organizations, including state and federal departments, there has been no revision of the original plan.

REPRESENTATIVE KAWASAKI observed that HJR 26 does not necessarily ask for any significant changes to the policy, rather it urges the U.S. Secretary of Interior to work under the confines of what is already current law under the conservation management plan. He asked whether the sponsor is actually asking for something different or asking that [the federal government] work with [the state].

MR. MARTIN said the purpose of HJR 26 is to re-engage a serious discussion with the state on sea otter management in Southeast Alaska. There seems to be a disconnect with the U.S. Fish and Wildlife Service managing the sea otters; sea otters are unmanaged at this point because they are growing at such a tremendous rate. The resolution is asking for a sit-down between the state, federal government, and other interested parties to discuss what can be done to resolve this issue.

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REPRESENTATIVE KAWASAKI said it is unclear whether the resolution is asking that the State of Alaska become the manager of sea otters. He asked whether this is what the sponsor wants to have happen.

MR. MARTIN replied "no, that is not what this resolution is asking," although having the state take over management is a possibility. The resolution is only asking to engage in a more serious dialogue between the appropriate people on this issue.

MR. MARTIN, in response to Co-Chair Feige, confirmed that he is an intern for Representative P. Wilson. He said he is studying political science, with a minor in Russian, at the University of Alaska Fairbanks and originally moved from the former Soviet Union to Prince of Wales Island in 1997. He added that actually experiencing the political process is much better than reading about it in a book.

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REPRESENTATIVE HERRON moved to adopt the proposed committee substitute (CS) for HJR 26, Version 27-LS0717\B, Bullard, 1/27/12, as the working document. There being no objection, Version B was before the committee.

CO-CHAIR FEIGE opened public testimony on HJR 26.

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ROSITA WORL, PhD, Chair, Federal Indian Policy Committee, Alaska Federation of Natives (AFN), explained that she is speaking on behalf of AFN, but that she wears multiple hats. She said she is also vice chair of the Sealaska Corporation board of directors and president of the Sealaska Heritage Institute, both of which have a very direct interest in the sea otter issue. She noted that [Alaska Natives] have been aware of the increasing sea otter population and its impact on the resources. In regard to Representative Gardner's question, Dr. Worl said that at the time when there were a million sea otter there was only an indigenous population using the otters for traditional purposes; there were no commercial fisheries or commercial enterprises. Right now, Alaska Natives know that the [sea otter] population is having an impact on both commercial and subsistence resources. When AFN became aware of this through discussions with its villagers it attempted to act to see what it could do.

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DR. WORL related that the Marine Mammal Protection Act, as it now stands, allows for Alaska Natives to take marine mammals and use them for customary purposes for subsistence, as well as the selling of traditional arts and crafts products. At issue is what is traditional and what is customary. For example, an Alaska Native made a teddy bear and was cited for it not being traditional. So, AFN has been trying to advance legislation, which was received with mixed emotions in the Native community because of the fear that opening the Marine Mammal Protection Act might change the exemption/protection for Alaska Natives. However, AFN feels that the inability to make contemporary items is causing problems because a number of Alaska Natives have been cited. She said AFN has complained vigorously about enforcement practices and has advanced ideas of co-management.

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DR. WORL continued, stating that AFN's idea was really to change the Marine Mammal Protection Act to allow for the sale of contemporary items. She shared that the Sitka Tribe of Alaska (STA) started a marine mammal tannery that includes sea otter. She added that Sealaska Heritage Institute started holding skin sewing workshops because this is seen as an opportunity to develop economies in Alaska Native villages, and Sealaska has started a subsidiary corporation directed at promoting village economies. Sea otters are seen as one possible answer to promote sustainable economies in Alaska Native communities.

DR. WORL pointed out that the "marine mammal commission" has worked for some time to advance the notion of co-management. There is reference to that in the Marine Mammal Protection Act, she said, but it is a long process. Because of the impact on other resources, the hope is that developing village economies around marine mammal skin sewing classes will be part of the answer. She said AFN has met with the Alaska Department of Fish & Game about its ideas and AFN has a proposal to the legislature where it would continue its work in sponsoring skin sewing classes.

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DR. WORL stated that AFN thinks there are many good things included in HJR 26. However, the whereas clause related to the sale of pelts is objectionable and AFN opposes it. The language

is not clear in specifying who could purchase the pelts. Right now Alaska Natives can sell pelts to other Natives. If the language in HJR 26 is to allow for the sale of pelts to non-Natives, the AFN would oppose that because of the impact it would have on village economies. Such language would likely also generate considerable opposition from animal rights groups. She said AFN does not support letting the population expand and then collapse, rather it supports sustainable harvest.

DR. WORL informed committee members that AFN is the statewide Native organization, representing approximately 16 percent of the population of Alaska, or 200 villages, 13 regional corporations, and 12 non-profit corporations. She said a resolution adopted at AFN's 2011 convention opposes any kind of change to the Native exemption in the Marine Mammal Protection Act and opposes the sale of pelts to non-Natives. She reiterated that AFN would oppose any provision in HJR 26 that would allow the sale of pelts to non-Natives.

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REPRESENTATIVE GARDNER inquired whether AFN would oppose the whole resolution if the one clause promoted the sale of pelts to non-Natives.

DR. WORL replied that the resolution is good in its intent but for that one clause.

REPRESENTATIVE MUNOZ asked whether [AFN] would oppose the sale of pelts to non-Natives in small rural Alaska villages.

DR. WORL responded yes. She added that AFN supports maintaining the Native exemption language as it is in the Marine Mammal Protection Act.

CO-CHAIR FEIGE inquired whether the sale is limited to Alaska Natives or Southeast Natives.

DR. WORL understood that it is limited to Alaska Natives.

CO-CHAIR FEIGE further inquired whether that is Alaska Natives anywhere.

DR. WORL answered that she knows a person must live on the coast to be eligible to harvest sea otters, but Native people anywhere can purchase sea otter.

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CO-CHAIR FEIGE said he thinks that is what HJR 26 states, other than he does not think it puts a limitation on to who the pelts can be sold. He perceived AFN's intent as being to keep a supply of sea otter pelts that Natives can turn into value-added products for sale for making a livelihood.

DR. WORL replied yes.

CO-CHAIR FEIGE asked whether there is the capacity to utilize all the pelts that would be taken under a management plan. For example, a management plan could call for more sea otters to be taken than Alaska Natives could process. He further asked whether surplus pelts could be stored.

DR. WORL responded that someone may be testifying about this. She said the STA tannery has been expanded and other tanneries are being developed, and there are tanneries in Anchorage that can accommodate this. Sealaska has looked at having facilities to freeze excess pelts until they could be tanned. She stressed that [AFN] absolutely supports sustainable harvest and if there was an immediate increase in sea otter harvest it would run afoul of people who would like to oppose any kind of marketing of it. So [AFN] is trying to work on this in a way that will protect Alaska Natives and protect Alaska Native communities and the development of this cottage industry.

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CO-CHAIR FEIGE surmised that a gradual ramping up of sea otter take would be something that would be worked out in the negotiation of the management plan so that it would match the increase in capacity for utilizing the pelts.

DR. WORL agreed that it would be a ramp up, but said it could also be selective. She related that in AFN's discussions with the Alaska Department of Fish & Game, AFN has proposed that the department identify areas for Alaska Natives to target for harvest.

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REPRESENTATIVE DICK commented that conversation about local economies may be premature because the real goal of HJR 26 is just to start a conversation and the tail end of that discussion is what is being discussed right now. He said that whatever

would be most powerful in getting the conversation started is the most important thing that should be said.

DR. WORL said AFN has tried that in its discussions with the Alaska Department of Fish & Game, the U.S. Department of Interior, the U.S. Department of Agriculture, and the Alaska delegation about the problems and addressing those problems.

REPRESENTATIVE HERRON complimented Dr. Worl by sharing that people in his area consider her to be an Elder. He then asked what the views are of AFN and Dr. Worl on the meat of sea otters.

DR. WORL answered that she does not know that AFN has addressed that, but the marine mammal commission may be working on that. She added that the marine mammal commission has been the entity doing all of the work on this for 10 years or more.

REPRESENTATIVE HERRON suggested that this should be part of the discussion because there is the potential that large quantities of edible meat will need to be managed as well.

DR. WORL agreed to ask about this.

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CO-CHAIR SEATON inquired whether AFN's objection could be resolved by eliminating on page 4, line 1, the language "transfer, and sale of intact sea otter pelts" and inserting in its place "for contemporary items".

DR. WORL responded that she does not have a copy of Version B, but AFN's concern is the sale of intact sea otter pelts and it is not clear whether that is limited to Native or non-Native.

CO-CHAIR SEATON surmised that if there is currently the ability to sell pelts to Natives, then this does not need to be taken care of for AFN's concern. However, he understood that AFN wants to ensure that contemporary items are covered.

DR. WORL said AFN has been advancing to Alaska's delegation a clarification that Natives can sell contemporary items.

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REPRESENTATIVE FOSTER commented that while the overall goal is to manage the sea otter population, he thinks that the impacts

on the Alaska Native community in terms of being able to reintroduce and encourage cultural practices, and the impacts that that could have on the youth, would have impacts on everything, including the issue of suicide. He said he is very much in support of the work that AFN is doing on this issue.

DR. WORL agreed about the impacts. She said she just completed a study on the status of Alaska Native women and one thing she found is that there are very limited economic opportunities in the villages and that is accompanied by social problems. Some of those social problems can be alleviated by people having healthy lifestyles and the ability for sustaining themselves.

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EDWARD THOMAS, President, Central Council of Tlingit and Haida Indian Tribes of Alaska, first offered his appreciation for the resolution. While there are portions that need clarity and some that the council outright opposes, he said the idea of the State of Alaska, the federal government, and the tribes working together to manage a very important resource is a good thing. He related that he is from Craig and happened to be living there when sea otters were reintroduced. At that time the management plan was not clear as to whether the sea otters were available for Natives or non-Natives. However, as the Marine Mammal Protection Act became refined over time, the harvest of sea otters became part of the act for Alaska Native utilization. That is an important component to the act, he stressed, and when that part of the act is talked about, the central council wants to make sure that the purpose of that act is because the indigenous populations relied on those resources from the beginning of time and it was important to the policy makers to continue that practice.

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MR. THOMAS said the resolution does a good job articulating the resource and its growth as well as the problems that are created with the overpopulation. When looking at the problem, it must be understood that when the Marine Mammal Protection Act put forth the regulations and requirements it was very restrictive on what the pelts could be converted into to be considered part of Native tradition, not realizing that today's people are also creating traditions. The practices of Alaska Native people now are Alaska Native practices, he pointed out, and these practices are not necessarily 100 percent the way they were at contact with the Russians. For example, at the time of Russian contact

there was no commercialization of crab or bottom fisheries, so the Alaska Native utilization of those resources was much different. But as time moved forward, Alaska Natives became involved in those fisheries; people utilized those fisheries because the ability to gather them changed. Likewise, the utilization of pelts has also changed, and the interaction between Alaska Natives and other people for the value of those pelts has changed.

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MR. THOMAS related that Alaska Native artisans are not so worried about selling a pelt to somebody in Juneau, Anchorage, or even Seattle. The biggest threat is that if Alaska Natives were allowed to sell those pelts unaltered they would come back as authentic Native crafts made in Taiwan, as can be seen by looking at Juneau's South Franklin Street. That is just the nature of the way it works, he said, if places can be found where people can make them much more efficiently and cheaper with different methodologies, then that is where they will end up coming from. It is very important to preserve not just an Alaska rural economy, but the economy as it is, and that is the primary reason why the central council is very concerned about selling pelts without being very clear on how they will be utilized. The central council does not want to have a mass exit of these resources and then have them come back to Alaska for sale.

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MR. THOMAS, regarding sea otter management, said he believes there could be broadened utilization of sea otter pelts, provided there is a loosening up of the words that are being used as traditional or authentic. A product made by a Native today and sold for tourism is authentic, he said, whether it is a totem pole, vest, or other clothing. However, the Marine Mammal Protection Act narrows it down as to how it must be done and applies certain other conditions, such as being something that was made way back when. Referring to the teddy bear incident mentioned by Dr. Worl, he said nothing in Native society says that Alaska Natives never made teddy bears. When he was a youngster, a house would be built for a person that died and the person's belongings would be put in the casket and in the house. If it was a child that died, products were made by family members and put into the house where the child was buried. Many things were not seen as Alaska Natives made the transition to contemporary society; a lot of those things may

have existed and there are signs that they did exist prior to contemporary times.

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MR. THOMAS continued his discussion about loosening up the words by providing an example. If an artisan was able to use a sea otter pelt to make a vest with a zipper it would be authentic, but it would not be considered traditional because it does not meet the criteria. It goes without saying that Alaska Natives made blankets out of skin pelts, but if trying to abide by the Marine Mammal Protection Act that would have to be proved somehow. Since his grandparents did not use sea otter pelts to make blankets, it is hard for a person like him to prove it.

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MR. THOMAS said he believes that if Alaska Natives were able to do more things with the pelts locally that there would be more incentive to create tanneries and more incentives for people to do something with the by-products. However, with the limited access and limited utilization, the problem remains. By working with the scientific community the House Resources Standing Committee can help Alaska Natives work through the maze of federal regulations so that there can be better utilization of those resources locally as well as control the population so it makes sense to the people utilizing the resources being consumed by the sea otter.

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CARRIE SYKES, Manager, Business and Economic Development Department, Central Council of Tlingit and Haida Indian Tribes of Alaska, noted that she has been sewing sea otter pelts since about 1990, so she is very familiar with what is involved with the processes. She related that last March the U.S. Fish and Wildlife Service sponsored a workshop in Sitka for the southeast tribes; about 12 communities were represented at the meeting. The workshop was sponsored because of the need for information and education. The tribes were not clear about what the Marine Mammal Protection Act allowed for them and were fearful of harvesting because of past enforcement issues that happened to other tribal members. A lot of issues were brought up, but the biggest issue is that there needs to be government-to-government consultation between the U.S. Fish and Wildlife Service and the local tribes so that the tribes can work on management in their local areas. It is important to the tribes to have input on

what is happening in their region. That was started in 2011, but the person with the U.S. Fish and Wildlife Service changed jobs so the position is currently vacant. At an economic development workshop held this past December, the service was urged to fill this vacant position and it is now looking at re-starting the government-to-government consultation.

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MS. SYKES, regarding the enforcement issues, reiterated that tribal members are fearful about harvesting without some clearer definitions about what is significantly altered. She conveyed that a recent letter from the U.S. Fish and Wildlife Service includes draft language about significantly altered, and the central council is very happy to see that there has been an effort to start to define that in regulation so people have a clear understanding of what is allowable and what is not allowable.

MS. SYKES addressed the question of what is authentic. She said the central council's position is that if it is made by a Native it is authentic. Additionally, the central council considers a killed and tanned hide to be significantly altered. There is much need for education and outreach, particularly when there are groups that oppose any harm to sea otters and do not understand the impacts to the shellfish and subsistence foods. There needs to be education and outreach on what is allowed by the Marine Mammal Protection Act.

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MS. SYKES said that while there is opportunity for economic development, there are lots of needs, such as training for how to sew the skins and how to skin the hides, more facilities for tanning, opportunities for marketing, and coordinating with others such as bartering the hunters.

MS. SYKES added that, according to the hunters, sea otter meat is not edible. Regarding customary and traditional use, she said it is documented that over 200 years ago sea otters were used in the raven's tail weaving and those robes are in Russia and other places around the world.

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REPRESENTATIVE FOSTER inquired whether under the Marine Mammal Protection Act the burden of proof is on the Alaska Native to

prove that something is traditional and customary or is the burden of proof on the U.S. Fish and Wildlife Service to show that something is not traditional and customary.

MR. THOMAS replied that there is very little burden of proof; the agency utilizes traditional from its own perception and that is what creates the problem. This makes people very nervous because the fines for violating the act are extensive. When a regulator or other person in a high position interprets something different than did the Alaska Native, then that person is in trouble. While the U.S. Fish and Wildlife Service will be coming out with proposed definitions of what significantly altered means, it is a little late for a person like himself. He said he believes that whether something is authentic is more important than what significantly altered means to the U.S. Fish and Wildlife Service. It sounds like splitting hairs, he said, but it isn't. If it is defined properly it will allow people to utilize the resource better.

REPRESENTATIVE FOSTER said he wanted to make sure that Natives are not being required to provide a picture from 200 years ago.

MR. THOMAS added that there is some truth to what Representative Foster is saying, because from the perspective of the U.S. Fish and Wildlife Service, if it is not in a museum somewhere or seen somewhere then it is probably not traditional use.

[2:04:55 PM](#)

REPRESENTATIVE MUNOZ asked how the cases of the previously mentioned people were resolved, given that it is the U.S. Fish and Wildlife Service that defines what is acceptable.

MS. SYKES said she knows that in the past it has been left up to the U.S. Fish and Wildlife Service, and that has made everyone fearful. However, the agency recently sent out a letter requesting tribal consultation and input on its new definition and the comment period ends the end of March.

REPRESENTATIVE MUNOZ inquired whether the artists that were cited have paid a fine and are continuing.

MS. SYKES responded that she knows artists from Ketchikan who had hides seized three years and are still waiting. In the case of one of those artists, the hides were tagged correctly, but the artist did not have the paperwork from 15 years before, so the hides were taken. Yet, the U.S. Fish and Wildlife Service

did not have its own paperwork and still took the hides. Another case is a young man who did not keep up on his paperwork and is getting ready to go to prison. This artist sold to a non-Native and his claim is that he was tricked. When selling a hide is an artist supposed to request proof of whether someone is Native; there again is that burden of proof and where things are unclear.

[2:07:04 PM](#)

REPRESENTATIVE MUNOZ asked whether the citations are coming from local U.S. Fish and Wildlife Service employees.

MS. SYKES understood that there are two arms of the U.S. Fish and Wildlife Service - a management arm out of Anchorage and the enforcement people in Washington, DC. She said she thinks it is the local officers who do the citing, but it is actually handled through Washington, DC. It was brought up at the workshop that the agency wants Alaska Natives to harvest, but that citing people does not make them want to go harvest.

REPRESENTATIVE DICK said this is exactly the point that he was trying to make last year with his wood bison legislation. He did not want the subsistence people in his district to find themselves litigants.

[2:09:05 PM](#)

KIRK HARDCASTLE, Commercial Fisherman, emphasized that commercial fishing is the stabilizing economic influence for the entire state of Alaska. He said that he is an entrepreneur, a businessman, and understanding the role that the sea otter has in all of the fisheries in Southeast Alaska is absolutely essential. He said he studied marine biology and environmental physiology in college and was born and raised around sea otters. The sea otter is a keystone species; a keystone being something that holds the whole arc together. Commercial fishing is a keystone economic influence for the state of Alaska.

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MR. HARDCASTLE explained that sea urchins and abalones make up the majority of the sea otter diet. Sea urchins and abalones are grazers, eating the kelp that grows on rocks. Sea otters keep urchins and other grazers in check so that there is a kelp forest. Kelp provides the rearing grounds for all of the commercial fisheries species; for example crab, shellfish,

salmon, halibut, and cod. All of those juvenile species must live in the kelp forest before they move to the outer waters. A tiny juvenile fish does not have protection from larger predators, but a kelp forest is like the entanglement of a net so that large predators cannot get in. When [young] salmon leave the inland water systems for the open ocean waters, they hide and live within those kelp forests. Crab have several different morphic stages, and each of those different stages may live in mud, or rocks, or open ocean, but all crab at one stage in their life live in these kelp forests. The major economic value of sea otters is that they provide rearing grounds for all of the fishing industries.

[2:12:39 PM](#)

MR. HARDCASTLE said sea otters may be cute, but they are mean and he has been bitten several times. The McDowell report talks about the impacts of [sea otter] predation. However, no one has looked at what the economic impact would be if sea otter numbers were to rise. For example, more kelp means more rearing grounds, more rearing grounds means more availability for juvenile species to make it to the outer ocean and then come back and increase the pocketbooks of fishermen. Southeast Alaskans rely on these species for subsistence and commercial value. The more kelp, the more fish, but no one has done a report on the benefits of having otters and greater kelp forests in Southeast Alaska. He related that in northern California where the sea otter population has come back, a rebound has been seen in all the other species because there is a protected area to hide in.

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MR. HARDCASTLE refuted the statements made about sea otters devouring every resource and hurting the ecological system. He said numerous papers show that to be false. Otters benefit, not hurt, the ecological system. As to devouring every resource, graphs in the McDowell report and a memorandum [in the committee packets] show that sea otters do not devour every resource. Only 5-7 percent of sea otter diet is comprised of commercial shellfish, 95 percent is non-commercially harvested animals.

MR. HARDCASTLE shared that he is on an Alaska Department of Fish & Game advisory committee and has been involved in the sea otter issue for quite some time, in addition to growing up with otters. He added that sea otters are a federal species, not state species. While he does not need to be around sea otters

himself, he does understand the economic value of sea otters to the tourism industry throughout Southeast Alaska. He pointed out that the unintended consequences of keeping sea otters alive or dead has not been studied. As a commercial fisherman, he emphasized how important it is that there is a large sea otter population so that there are healthy kelp forest systems for all the fisheries.

[2:16:14 PM](#)

REPRESENTATIVE GARDNER inquired what the other 95 percent is of the sea otter's diet.

MR. HARDCASTLE replied that according to the McDowell report 52 percent is clams followed by other echinoderms, fish, mollusks, scallops, sand lance, geoducks, shrimp, tanner crab, red urchins, cucumbers, barnacles, and unidentified prey. Non-commercial crabs make up almost 95 percent of sea otter diet, and eliminating that 5 percent would impact 100 percent of the fisheries in Southeast Alaska. Healthy kelp forests are needed. These kelp forests are primarily in the outside waters, not inside waters. Sea otters are not moving to the inside because they do not live where there is no kelp. Sea otters have no blubber and do not float very well, so they need to wrap themselves in kelp to keep afloat. Higher sea otter populations could benefit all the fisheries in the long run.

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REPRESENTATIVE MUNOZ asked about the state of kelp forests today and whether there is any tie-in with the increase in sea otter population.

MR. HARDCASTLE responded he did not study that in Southeast Alaska because he has been involved in fisheries. However, in marine biology it is common knowledge that the diet of sea otters is urchins and abalones. If otters are eliminated, then there would need to be a massive urchin harvest industry to maintain the growth of the kelp forests. He predicted that such a massive industry would require laborers coming from Asia.

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REPRESENTATIVE P. WILSON read from page 8 of the McDowell report, last paragraph, first sentence, which states: "Other studies tend to support the notion that sea otters are opportunistic generalists which adapt their predation to their

environment." She said there are sea otters living in the Wrangell harbor and she sees them all the time because her house is located in the harbor. She said sea otters are not like some species that will move on after all of their favored prey is eaten in an area. Sea otters are very adaptable, so once their favorite species is gone they will go to their next favorite, and so on, and do not move out of an area until there is very little left. In the meantime the industries being talked about here are being affected now and a big difference is being seen now in these areas. She said she is not saying to get rid of sea otters, rather the hope is that Alaska Natives can do what they have traditionally done for years and harvest the otters and make the skins into things that make money. Keeping the harvest only to Alaska Natives will not result in overharvest.

CO-CHAIR FEIGE added that the point of HJR 26 is advocating for a management plan of some kind, not exterminating the species.

REPRESENTATIVE P. WILSON agreed.

[2:23:20 PM](#)

PHIL DOHERTY, Executive Director, Southeast Alaska Regional Dive Fisheries Association, disagreed with Mr. Hardcastle's statements pertaining to Southeast Alaska, and said it his association's point of view that when sea otter populations are increasing, millions and millions of dollars' worth of harvest potential are lost. There is little doubt, he continued, that where there were sea otters there are [now] no sea urchins, no geoduck clams, and no sea cucumbers, as those are the first species to go. According to the chart for sea otter diet, he related, 38 percent is sea urchins, a harvestable species to his association; 10 percent is geoducks; and 4 percent is sea cucumbers. The problem with that study, he said, is that it was done in areas that otters had inhabited for many years, so the sea cucumbers and sea urchins were basically gone. He offered his belief that the University of Alaska study shows that as sea otters move into new areas the first things that go are the sea urchins, sea cucumbers, and geoducks, and then the otters will eat more undesirable food sources like hard-shell clams. Sea otters impact the association's fisheries; for example, the Alaska Department of Fish & Game has closed down 14 areas to sea cucumber fisheries because of sea otter predation.

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MR. DOHERTY further pointed out that the geoduck clam guideline harvest levels have been cut by hundreds of thousands of pounds and next year another 150,000 pounds of guideline harvest level will be lost. In yesterday's opening, he continued, geoduck clams fetched \$22 a pound according to the Alaska Department of Fish & Game. The department's latest assessment of red sea urchins found that there was five million pounds less sea urchins in Southeast Alaska than a few years ago and the department attributed that directly to sea otter predation. While he realized that the resolution would encourage and increase the harvest of sea otters as an economic benefit to the Southeast Alaska Native community, he said it would probably not be enough to really affect the impacts on the association's commercial fishing. However, he added, it is a step in the right direction and the association fully supports HJR 26.

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MR. DOHERTY related that over past two to three years the City of Ketchikan, the Borough of Ketchikan, the City of Petersburg, the Prince of Wales economic impact group, the town of Kake, the Petersburg Vessel Owners Association, the Southeast Alaska Fishermen's [Alliance], United Fishermen [of Alaska], the Southeast [Alaska] Regional Advisory [Council], and the Central Council Tlingit Haida have all written resolutions that sea otters in Southeast Alaska should be managed. Therefore, Representative P. Wilson does not stand alone on this issue. He said that over the last three years he has met with the U.S. Fish and Wildlife Service numerous times, attended numerous meetings of the Alaska Department of Fish & Game, and met with other organizations and they all understand and realize the impacts that sea otters are having on Southeast Alaska commercial and subsistence fisheries. He urged the committee to support HJR 26 and to encourage the State of Alaska to keep the pressure on the U.S. Fish and Wildlife Service in terms of the Marine Mammal Protection Act and coming up with a feasible management plan for sea otters in Southeast Alaska.

[2:28:57 PM](#)

DENNIS WATSON, Mayor, City of Craig, said he disagrees with Mr. Hardcastle's comments and is testifying in support of HJR 26. He said he is a 38-year resident of Craig and has been a commercial fisherman since his arrival. For 16 of those years, up until last year, he worked at a commercial dive fishing operation harvesting sea cucumbers. During his first 15 years in this area sea [otters] were a rare sight and he was amused by

them. By the mid-1980s large numbers of otter became common sight around southern Southeast Alaska. Now it is a rare occasion that a place can be found where an otter is not seen. He even sees them as far out as 20 miles offshore where he trolls. During his time in the dive fishery, he spent about 1,000 hours watching the bottom of the ocean via a camera while surveying for cucumbers. At first it was amusing to watch sea otters because they are quite efficient and smart creatures. But after a while he began to realize that once sea otters got into an area they quickly devastated the species in that area and then moved on. In his experience, the feeding cycle begins with the easy-access shellfish and sea urchins in the intertidal areas; when these species are depleted the sea otters move into deeper water where they work on horse clams, geoducks, sea cucumbers, and crabs until just about all the edible species are gone; and in the end they eat the starfish.

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MAYOR WATSON said that what is left after the sea otters move out, as seen from his camera, is big deep holes in the bottom that were dug by the otters while chasing after clams and other species. When the otters move on the only thing left are those big holes - no starfish, no urchins, no anything. Many of these species are important to subsistence users and commercial harvesters. This year the dive fishery in the Craig area is projected to have around a \$20 million ex-vessel value, which is huge, especially in small villages where there is virtually no economy in the fall and winter months. Last year in Craig alone the geoduck harvest provided a payroll of \$10 million, excluding processors, shippers, and other support services. It is a big economy for Craig and it is at a time of the year when there is nothing else to do. Sea otters do not have any predators that take very many of them, so something needs to be done to keep their numbers in balance with the rest of the ecology of the region.

[2:33:21 PM](#)

MAYOR WATSON added that he has heard from the U.S. Fish and Wildlife Service that it is unknown how many sea otters were [originally] in Southeast Alaska, and there could be way more now than there was at any point in history. Humans have had a hand in depleting sea otters and in bringing them back, he continued, and man needs to move in and manage these creatures. He said his understanding from talking with a man who did a PhD dissertation on this subject, is that sea otters were

reintroduced in this area to re-create the commercial harvest of otters. The management plan was going to be to trap them, but the Marine Mammal Protection Act cut that short. He offered his hope that Alaska Natives can be allowed to take more sea otters with less of a problem. He shared that some people in his area have gotten into really hot water over what was thought to be very, very minor violations. His community would like to see this cleaned up and would like to see a better management plan.

REPRESENTATIVE GARDNER inquired what a natural predator of sea otters is, aside from man.

MAYOR WATSON replied that up north killer whales really like sea otters, but the killer whales in his area are fish eaters.

[2:35:29 PM](#)

JAMES ANDERSON explained that sea otters are really rich because they eat so much shellfish and are inedible no matter how they are cooked, which is why Native people have never eaten them. He jokingly suggested doing studies on what could be made for dog food. He maintained that there will not be a dive fishery if sea otters continue as they are. When a group of several hundred sea otter come into an area, there is nothing left on the bottom once they are done, even the starfish cannot survive and nothing is able to reproduce. Regarding what Alaska Natives can and cannot do with sea otters boils down to entrapment, he said. For example, a man he works with was talked into selling hides to an undercover agent.

MR. ANDERSON noted that years ago Alaska Natives killed things with a stick, but as time went on the methods changed. Native lives are always changing all the time, he said, and so are Native traditions and artwork and this change needs to be considered. The restrictions need to be lightened up for the Natives so they can work with the sea otters. After a sea otter is shot, trying to figure out how to legally get from a skin to a product to sell without getting into trouble almost requires a college degree, and this problem needs to be addressed. He said he would like to start a tannery in Craig but has had problems getting grants. If the workers had to be Native, he could put Native families to work on Prince of Wales where there is a lot of sea otter that would last a long time if managed right. He urged that the issue be studied and that there be a lightening up for people to use the resource.

REPRESENTATIVE DICK agreed with Mr. Anderson that Native culture is always evolving. He said there is an image of Native culture as being fixed in time like a snapshot, when in reality throughout millennia it has been a movie.

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CO-CHAIR FEIGE kept public testimony open and held over HJR 26.

MR. ANDERSON added that he would like to see his community's dive fishery continue on. As a teenager he was able to pick up abalone on the beach, but he has not had an abalone in over 20 years between divers and sea otters. However, if things are managed right, everyone could have some of it. He said he does not want the sea otters decimated, just managed.

HB 276-OIL/GAS PRODUCTION TAX CREDITS: NENANA

[2:41:32 PM](#)

CO-CHAIR FEIGE announced that the next order of business would be HOUSE BILL NO. 276, "An Act providing for a credit against the oil and gas production tax for costs incurred in drilling certain oil or natural gas exploration wells in the Nenana Basin." [Before the committee was Version M, the proposed committee substitute (CS) labeled 27-LS1193\M, Bullock, 1/18/12, adopted on 1/30/12.]

CO-CHAIR FEIGE said Mr. Bill Barron participated in a recent discussion between the co-chairs and their staff regarding the issues around oil and gas exploration credits and incentives associated with HB 276 and that Mr. Barron will be addressing the committee. Co-Chair Feige explained that the proposed bill would put forward some Cook Inlet-style credits by incentivizing the first, second, and third exploration drill holes in the Nenana Basin. At the same time, there is the question of whether other exploration incentives should be considered and whether this bill could serve as a template for other basins in addition to the Nenana Basin.

[2:43:19 PM](#)

WILLIAM C. BARRON, Director, Division of Oil & Gas, Department of Natural Resources, stated that providing incentives for exploration in remote areas is probably something that needs to be considered very strongly. Currently, only a handful of areas in the state have had much of any exploration and even fewer

have had development. He said that part of the aforementioned discussion was about the process of exploration licenses, leases, and units.

MR. BARRON explained that for the areas of the state and state lands that are not part of the existing area-wide lease sale program, there is the opportunity to establish exploration licenses. If a party or parties want to explore in a certain area, they can come to the state and nominate the land and the area for that license. The state would then conduct a best interest finding (BIF) for that area, which takes about two years. Upon completion of that finding, the state would open up that area for a competitive bid process for its exploration license term. The license is granted on a dollar commitment rather than a work commitment. The term of the license is typically 10 years. During that timeframe the party or parties awarded the license are required to expend 25 percent of their commitment within the first four years, but have the remainder of the term to spend the rest of their money. At the end of the license term, the land or any portion of the land that was part of the license can be extended into a lease, at which time the state would gain \$3 per acre lease fees for the designated area. The five- to ten-year term of the lease is negotiated between the state and the party or parties, and is typically ten years. During that timeframe the parties are encouraged to do additional exploration work, driving the property closer and closer toward development and production.

[2:46:35 PM](#)

MR. BARRON addressed what happens if there is a failure at either the license period or the lease period, a failure meaning that nothing is found or nothing worth continuing the work is found. On the license side, the property is just returned to the state. On the lease side, if work is not done the property is returned to the state after the lease period. If there is a success - someone drills a discovery well and proves hydrocarbon and proves closure - a unit is then formed, which is done in conjunction with the Department of Natural Resources (DNR). Forming a unit secures the land for an additional term, typically five years, unless the property is developed and producing and then it is on until the property no longer produces hydrocarbon. He said the reason he wanted to make the distinctions between a license, a lease, and a unit, is because there are very definite timeframes, processes, and procedures that the state follows for everyone's protection in terms of the property, the land, and the resource development.

MR. BARRON, regarding the proposed language he has seen to date, said he thinks that the credits need to be for state lands and probably for Native land as well. Federal property is a whole different issue. He maintained that properties for this type of tax credit should exclude the lands that are currently in the area-wide lease sale because those areas already have a very robust process, credits, tax programs, and so forth. He said his understanding of HB 276 is that it is intended to encourage exploration activities in areas that have never really been explored before.

[2:49:16 PM](#)

CO-CHAIR FEIGE, in regard to including Native corporation lands along with state lands, asked how Alaska Mental Health Trust lands and private mineral holdings should be handled.

MR. BARRON replied he would have to give that more thought. In concept, they could be rolled in in the same manner. There are some subtleties relative to Native land, he added. At this juncture there would need to be some very clear definition of the acquisition of information and data and sharing that data either to the state or publicly. Right now that is not the typical format for Native land exploration; that information is typically not made public. So, that would have to be adjusted in some manner if the intent is to encourage exploration and the intent is for the state to gain data and then share that data with other parties.

[2:50:20 PM](#)

CO-CHAIR FEIGE inquired what an appropriate timeframe would be for release of that data when moving from an exploration license to a lease.

MR. BARRON said that in a license a single group has exclusivity for 10 years. Having that data made available before then is really of no value to anybody, unless for the securing of those credits the party agrees that the license term be shortened. For example, if the statute reads that to be eligible for the credit seismic data is released to the public in four years, then the license term should also be truncated along those lines for the reason being that people would want to be able to use that data to encourage more exploration. If the license is truncated, then there needs to be an immediate move toward leasing of that area for the protection of the party that did

the work. There needs to be a strike of balance between releasing the data and ensuring that the parties that have taken a risk are also balanced with their ability to retain rights to do more exploration during the leasing program.

CO-CHAIR FEIGE understood Mr. Barron to be saying that if a party is given four years for an exploration license, then that party should have first rights on leases before the expiration and before the data is made public.

MR. BARRON answered that that would be one way to look at it.

[2:52:36 PM](#)

CO-CHAIR SEATON recollected that in testimony the other day the party with the license said that it did not mind releasing the data early because it had the license. He asked whether Mr. Barron has a different position.

MR. BARRON replied not necessarily. The party that made that claim might have that opinion; another party might have an issue. He said he does not have a counter opinion. Intuitively, if a party has a 10-year license and that license is then rolled to a lease, at which time the party has another 10 years, releasing the data probably does no harm. However, there is the question that if there are areas within that general area where seismic data is secured by one party, another party might interpret that data differently or see something that the first party did not see or understand. So, there is a balance in terms of when the data is made public and the unintended consequences to a player that strode up first.

CO-CHAIR SEATON commented that the state is heavily investing in that project because it wants to get development and that might help get development that is outside of the leased or licensed area. It would be a choice that the party applying to the state for the credit could make.

MR. BARRON agreed that that would be their choice.

[2:54:43 PM](#)

REPRESENTATIVE FOSTER noted that the committee is also looking at the possibility of whether a template could be set up so that this could be applied to other basins in addition to Nenana Basin. He related that there has been some interest in including credits for Kotzebue Basin and Norton Sound Basin. He

related that Mr. Bob Swenson of the Division of Geological & Geophysical Surveys said that there is nothing significant enough for even local use and this would mean having to look to offshore. He asked how far out the federal offshore waters are.

MR. BARRON responded that state water is up to three miles.

REPRESENTATIVE FOSTER requested Mr. Barron to expand on possible options for encouraging exploration in federal waters.

MR. BARRON answered that the federal outer continental shelf (OCS) program is a program all to its own and he would have to think about how to involve state credits in a federal program where there are not the same mechanisms for return of the state's investment.

[2:56:35 PM](#)

REPRESENTATIVE MUNOZ inquired whether Mr. Barron thinks the approach of legislating one basin at a time is best or should a bill like this be a template.

MR. BARRON replied the conundrum is that having a template is a good idea, but trying to figure out where to target those in specific areas might actually be a deferral of the activity. Even though there are some reasonably good ideas for guiding the state in terms of where those areas should be, having it one step at a time might actually encourage the exploration rather than delay it, whereas it is delayed because it had to be thought about too much. Areas that are known might be included early and as more is learned programs could be added.

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CO-CHAIR FEIGE presented a hypothetical example of incentivizing a seismic job where something promising is found, an exploratory well is then drilled, and then another to delineate a find, and something is found that is potentially developable. The party goes through the process of wells, facilities, transportation of the product to market and now the party is making money. By way of subsidization the state has invested a significant dollar amount at this point. He asked whether it would be seen as an incentive or disincentive that the party taking the credits is obligated to pay back a certain amount until the state's investment is paid back.

MR. BARRON responded that the payback requirement is very typical of what is in the Cook Inlet sale. He said he does not know that he would make any adjustment. In philosophy, what [the committee] is trying do is reasonable, just as the current Cook Inlet bill is reasonable in asking for that return.

CO-CHAIR FEIGE inquired whether, in addition to the jack-up rig, there are other payback requirements in other parts of that particular body of law.

MR. BARRON said not that he recalls, but he would defer to the Department of Revenue to provide a more clear response.

[3:00:19 PM](#)

CO-CHAIR FEIGE, at the request of Co-Chair Seaton, related that the co-chairs have discussed that these projects are essentially broken into phases: data collection, exploratory well, production, and commercialization. As a prerequisite for receiving a state subsidy the co-chairs feel it is appropriate in between each of these phases for the Department of Natural Resources and all its divisions to have some say as a check and balance, rather than rash commercialization utilizing state money. He asked whether Mr. Barron feels the department can handle that and has the expertise to handle that or would it need to be contracted out. He further asked whether Mr. Barron thinks that that would be an appropriate mechanism.

MR. BARRON replied that right now he will not necessarily address the manpower requirements and whether the department would do that in-house or contract it out. He said he thinks that having that pre-qualification meeting and setting the standards of location and direction and goals and objectives is very critical in this process. It is very important for the state, if it is going to be issuing these credits, to have that discussion up front and early and everybody agree with what the targets are.

[HB 276 was held over.]

[3:02:44 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 3:03 p.m.