

SENATE FINANCE COMMITTEE
February 17, 2012
9:01 a.m.

[9:01:23 AM](#)

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:01 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Lesil McGuire, Vice-Chair
Senator Johnny Ellis
Senator Dennis Egan
Senator Donny Olson
Senator Joe Thomas

MEMBERS ABSENT

None

ALSO PRESENT

Patrick Kemp, Deputy Commissioner, Department of Transportation and Public Facilities; Senator Cathy Giessel.

SUMMARY

BUDGET OVERVIEW:

Department Of Transportation: Roads to Resources

[9:02:04 AM](#)

Co-Chair Stedman notified the committee that the final audit report for the Goose Creek Correction Center had been released.

^DEPARTMENT OF TRANSPORTATION OVERVIEW: ROADS TO RESOURCES

[9:02:40 AM](#)

PATRICK KEMP, DEPUTY COMMISSIONER, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES (DOT), introduced himself and Roads to Resources manager Joe Buck.

[9:03:35 AM](#)

Mr. Kemp provided a PowerPoint presentation titled "Alaska Department of Transportation and Public Facilities Roads to Resources." He began with an overview of projects included in the governor's proposed FY 13 capital budget. The first project listed on slide 2 was the Umiat road that would provide access to the Foothills West area. The funding requested for the current year was for completion of the Environmental Impact Statement (EIS) and to begin the procurement process. The second project was the Ambler Road that would provide access to an area rich in mineral deposits; \$4 million would initiate the EIS process and would start the beginning of NEPA [National Environmental Policy Act].

Mr. Kemp relayed that the third project was a road extension of the Tofty Road towards Tanana; it would reach areas rich in minerals and some existing mines. Additionally, the project would connect the Tanana community to the state transportation system. The fourth project was the Klondike Industry Use Highway (IUH); it was the haul out of the Yukon Territory, which would help fund the Roads to Resources projects. The fifth project was the statewide Roads to Resources program, which would help the department to evaluate potential projects, fund the program, and to keep in touch with communities on potential resource extraction areas and on any help they may need related to resource development.

[9:05:40 AM](#)

Co-Chair Stedman asked for an explanation of the costs listed on slide 2. Mr. Kemp replied that the numbers listed on the slide represented millions. Costs included [but were not limited to] \$10 million for Umiat and \$4 million for Ambler.

Co-Chair Stedman asked whether the costs would see the projects through to completion. Mr. Kemp replied he would provide additional detail on each project later in the presentation.

Mr. Kemp directed attention to a map of the Foothills West area (slide 3). The Umiat road would provide access to the region, which encompassed approximately 9,000 square miles of known oil and gas deposits. A number of alternatives had initially been considered by the department including its preferred route from an economic standpoint based on known access to resources along the way; the route was indicated by a red line shown on slide 3 (Galbraith Lake to Umiat). Other alternatives included a road from Pump Station 2 and additional variations of the road from Galbraith. He explained that during the scoping period DOT had been asked by communities to consider a Meltwater route (shown in green on the slide); the route would be reached by traveling from Dalton to Deadhorse and using a number of spine and winter roads to Meltwater, which would then be extended southeast towards Umiat.

[9:07:50 AM](#)

Mr. Kemp turned to slide 4 titled "Road to Umiat - Foothills West." He communicated that the area was rich in petroleum; known resources included 200 to 300 million barrels of oil and over 31 trillion cubic feet of gas. He expounded that the gas was clean and compared to gas on the North Slope less processing would be required. He added that the oil was also a higher quality; he had heard anecdotal stories that oil could be put in a diesel engine directly from the ground. The project would be an exploratory road, which would begin as an 18 foot-wide road with inner-visible turnouts. The goal was to gain access to the area as quickly as possible in order to reach deposits and provide increased exploration. He noted the road may need to be widened at a later date in order to accommodate drill rigs or other industry needs. He relayed that a total cost was difficult to ascertain given the multitude of variables, but DOT believed the cost would be in the \$200 million to \$300 million range for construction. The draft EIS was scheduled for December 2012. The department believed the record of decision (ROD) may be changed from mid-2013 to late 2014; however, DOT would follow up on the issue with the Army Corps of Engineers.

[9:09:57 AM](#)

Senator Thomas asked whether (in conjunction with proposed DNR projects) the road to Umiat was the number one project necessary for the further development of the state's oil

and gas resources. Mr. Kemp believed the project was the primary way the state could help industry. He furthered that there was a lack of access to the resource rich areas and he surmised that the project had a high benefit-cost for the state.

Senator Thomas asked if the proposed route was the most reasonable for gaining access to resources in Umiat and other northern areas towards Prudhoe Bay compared to a route where existing wells were located. Mr. Kemp believed that the area south of Meltwater was not a good area for additional oil and gas discovery. The route from Galbraith had been deemed to have the best chance for additional resource discovery. He pointed out that the road was exploratory. He believed the Department of Natural Resources (DNR) would be able to provide more in depth detail on the issue.

[9:12:28 AM](#)

Senator Olson recalled that he had asked the previous year whether there was any opposition to the project. He had been told there was no opposition on record and wondered whether that continued to be the stance of the department. Mr. Kemp replied that the prior year he had only been on the job about one month and had not heard of any opposition at that time. Subsequently DOT had heard opposition to the project by local communities. He shared that the scoping report had been completed recently and contained all comments made regarding the project.

Senator Olson believed others in the department had been remiss given that they had not informed Mr. Kemp of the issue. He stated that he had heard more opposition to the Umiat road project than on any other road project in his 12 years on the finance committee. He opined that there was a lack of attention being paid to people who had historically worked for responsible development in the area; it was the only project they had openly opposed. He pointed to a letter from the North Slope Borough requesting the department to look at alternative road routes. He reminded DOT that the effects of the road would be present for multiple generations in the future after resource reserves had begun to dwindle. He did not see concern about how the road would impact the area 100 years in the future.

[9:15:26 AM](#)

Co-Chair Stedman asked for the list of alternative route options and for an overview of the public hearing process that had taken place on the project.

Mr. Kemp responded that he had heard multiple times that DOT was not listening to people. He stated that there was a difference between the phrases "they aren't listening" and "they're not doing what I want them to do." He emphasized that DOT was listening. There had been a minimum of six formal public meetings held on the issue in Anatumuk. He shared that DOT had dropped in on communities almost every time it had conducted a field study and that it had hired ten local people from the villages of Nisquit, Anatumuk, and Barrow to help with field subsistence studies. Additionally, DOT had published a thorough report addressing every comment that had been received.

Mr. Kemp reiterated that the department was listening. He believed that the current NEPA process allowed for opposition to be voiced before the full facts were in place. He had told the residents of Anatumuk that DOT was only partway through the substantial process. The scoping process had just been completed; the process entailed asking the communities, agencies, and others about potential concerns and what it should focus on in the NEPA phase. Subsequently the information was brought in and a scoping report and reasonable range of alternatives was developed. He expounded that the Meltwater route had been added during the scoping process and would be evaluated. Moving forward the reasonable range of alternatives would be developed and a matrix would be completed to evaluate each alternative; the matrix would include items like natural science of wetlands, caribou, road mileage, and other parameters. The alternatives would be included in the draft EIS, which would enable the particulars of the process to be discussed.

Mr. Kemp emphasized that the department was not trying to ignore public comments; it was working to follow the process in order to disseminate the draft EIS in a rational manner. He understood there were substantial emotions involved in the project, but he believed there was always safety in following the process. He opined that an opposition strategy was to disrupt the process at an early stage. He stated that it was the department's job to be strong and stay within the bounds of the process in order

to make the information available and to ensure that rational decisions could be made. He noted that the project could be stopped at any time, but the facts should be known before making a decision.

9:20:33 AM

Co-Chair Stedman referenced slide 3 and asked whether the department was considering the routes shown in green, yellow, blue, and red. Mr. Kemp replied that there were other variations based on the Galbraith route. There were five or six options included in the scoping report.

Senator McGuire requested a more detailed map of the potential routes to Umiat including information on any overlapping leases on mining, oil, and gas and on which companies held the leases. Mr. Kemp pointed to a handout showing the lease lots and the road system.

9:21:41 AM

AT EASE

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RECONVENED

Co-Chair Stedman directed the committee's attention to a document in the packet and indicated to Senator McGuire that if further information was required that DOT would supply it.

Co-Chair Hoffman asked DOT to provide land ownership information along the [proposed road to Umiat] route and how many miles were under different jurisdictions.

Senator Thomas asked DOT to incorporate DNR information in regards to leases in the area north of Umiat. He believed it would be helpful to expand the view included on the map on slide 3.

Co-Chair Stedman stated that DOT could help with the information. Mr. Kemp answered that the information would be made available.

9:23:46 AM

Senator Ellis remarked that the project materials mentioned Canadian mining interest and other corporate interests. He

stated that many of his constituents considered Roads to Resources to be corporate welfare. He understood the state's role and obligation related to transportation, but the project at hand would be expensive and included local opposition. He wondered whether DOT had a philosophy about sharing the fiscal burden between the public and private sectors. He questioned whether there was a private match for a road that served a private interest. He was willing to work on the issue in the interest of increasing revenue to the state treasury and the state's obligation to have a transportation system. He wondered where the private money was that would help fund the expensive projects and related upkeep.

Mr. Kemp replied that the projects proposed in the FY 13 capital budget were all unique and had their own unique financing; specifics were only presently coming to the forefront and were related to how gas tax credits and deductions were included in state law. He shared that he was not an expert on each of the projects listed on slide 2, but he knew a substantial amount about the industry use highway. He deferred to DNR for more specific detail. He provided an example related to Umiat. Currently when a developer wanted to access a site in the Umiat area it had to construct ice roads. Ice roads cost approximately \$100,000 per mile, there was a short winter window for construction, and construction reduced the amount of on-site time.

Mr. Kemp looked at a hypothetical 100-mile ice road that would cost a developer \$10 million. Approximately 40 percent of the \$10 million would qualify for a tax credit by the state; therefore, the state was essentially paying for the road and if it was done multiple times over the years the cost to the state could be \$40 million. He shared one theory that the state would eventually recoup the costs if it paid for the construction of an all gravel road. An alternative would be a P3 [Public-Private Partnership] that would include a toll structure (he noted it would relate back to the Klondike IUH). Under the P3 structure a bond would be used and the debt would be retired through toll payments. He reiterated that each project was unique and that multiple financing strategies could be used. Currently the Departments of Revenue and Law were looking Foothills West case. He shared that more information should be available throughout the process and he hoped to include a financing plan in the draft EIS for each of the projects.

[9:28:46 AM](#)

Co-Chair Stedman opined that oil credits and deductions needed to be included in order to show the whole picture. He stated that if the state was reimbursing companies at 40 percent before the immediate deduction the money given to companies would be substantially higher when factoring in credits as well.

Senator Olson asked if he could get a copy of the packet listing the department's response to people in opposition of the road to Umiat. Additionally, he requested a copy of any studies that may have been conducted that showed how the road would impact subsistence. Mr. Kemp replied that the information was available on the state website [www.alaska.gov] or he could provide the committee with a copy. He furthered that subsistence studies related to caribou were ongoing; the NEPA process was an integrative process. He stressed that the reports would be available for the draft.

Senator McGuire clarified that she was interested in a map that would show all mining, gas, and oil resources up to Meltwater. She wanted to see the companies connected to existing leases. She asked for the information to be updated from June 2011 to reflect the most recent lease sale.

Co-Chair Stedman asked the department to provide the information to his office so he could distribute it to the committee.

[9:31:13 AM](#)

Mr. Kemp directed attention to slide 5 titled "Ambler Mining District Access." The project was an access road to the Ambler mining district. He stated that the area was rich with minerals. The map showed alternatives and a number of different railroad and highway modes. The department was working closely with the developer NovaCopper Inc. on the project. The \$4 million request in the capital budget was to begin the EIS process; the first step would include scoping.

Mr. Kemp addressed slide 6 titled: "Roads to Resources Ambler Mining District Access." He shared that the project

would provide jobs in the area and that NovaCopper and Nana Corporation had entered into an agreement to develop resources. He communicated that a P3 financing arrangement may be used for the project.

Co-Chair Stedman asked for a definition of the term "P3." Mr. Kemp replied that a P3 is a Public-Private Partnership. He furthered that NovaCopper had expressed a willingness to participate in the project and had recently completed its economic analysis of the mine, which was showing positive results. He furthered that the P3 option would continue to be looked at and that Alaska Industrial Development and Export Authority (AIDEA) may take the lead on the project due to its bonding capabilities.

[9:33:25 AM](#)

Senator Ellis asked who NovaCopper was. Mr. Kemp responded that NovaCopper had recently split from NovaGold. He believed the company also had the Rock Creek mine in Nome. He deferred the question to DNR for additional detail.

Senator Ellis asked where the company was from. Mr. Kemp believed the company was Canadian.

Senator Thomas observed that the project showed great promise; however, he was concerned about how much the area had been evaluated and the cost. He pointed to the International Tower Hill project Livengood; the claims were located next to the Elliott Highway; therefore, no assistance had been provided to the company. He emphasized the importance of identifying resources prior to construction. He believed the most promising prospects needed to be determined in conjunction with DNR. He did not want the state to just spend money hoping for the best. He understood that the projects had been evaluated, but he wanted to ensure that the state looked at all resources throughout Alaska to determine the most economical approach.

[9:36:00 AM](#)

Senator Olson referenced the P3 financing approach and asked whether AIDEA was involved in the Ambler or Umiat road projects. Mr. Kemp answered that AIDEA was involved in the Ambler project and may take the lead in the future due to its bonding capabilities. Senator Olson asked about the

Umiat road. Mr. Kemp replied that AIDEA was not currently involved in the Umiat project; the system was different due to tax credits.

Senator Olson pointed to a concern related to asbestos in the gravel in the Ambler area. He wondered how the state would ensure that the road project would not cause the asbestos to become airborne. Mr. Kemp believed that the naturally occurring asbestos was primarily near the Ambler airport. He communicated that DOT would test the material; it was developing guidelines and working with Representative Joule and others to come up with a system to protect the health of anyone who may be exposed to the gravel.

Mr. Kemp pointed to the Tanana access project on slides 7 and 8. The project was an extension of the Tofty Road that headed west out of Manley. He relayed that the road would provide better access to existing and future mines. Additionally, DOT had received petitions from the community for road access to Tanana and the state highway system. He detailed that the plans did not include a bridge; the state usually required an ice road in the winter and a ferry service in the summer. The department hoped to obtain permitting and to begin construction with the \$10 million request. The idea was new and the department would begin looking at what it would take to construct a road in the upcoming spring. He continued that the project would begin with an 18 foot-wide road with turnouts. The department hoped construction would begin as soon as permits were obtained.

[9:39:22 AM](#)

Co-Chair Hoffman observed that the Tanana project location included three separate areas of Native patented lands and wondered whether DOT had heard anything from the Native corporations related to the project. Mr. Kemp replied that DOT had not reached that stage in the process and was still working the issues out. He had seen some of the lots and did not know whether the Native corporations would grant the state an easement through the areas. The issue would be looked at when the project began.

Co-Chair Hoffman stated that land ownership was critical; the project would not be able to proceed if right-of-ways were not permitted. He believed that determining the stance

of the landowners should be a high priority. He did not believe it made sense to spend any money if there was vast opposition to the project. Mr. Kemp replied that one of the first things the department did on a project was to base-map the corridor and determine land ownership along the route.

Co-Chair Stedman stated that there was a concern that the state should get a feel for the land ownership prior to putting too much money into the process.

[9:41:20 AM](#)

Senator Thomas looked at the maps included on slides 5 and 7 and observed that DOR was proposing a connection to Tanana from Tofty and a connection from Nenana up to the road. He asked why the department believed it needed a second connection. Mr. Kemp surmised that Senator Thomas was referencing a road from Nenana to Tanana. Senator Thomas replied in the affirmative. Mr. Kemp clarified that the route was an alternative that would be evaluated during the Ambler EIS process. The department had heard anecdotally that access from Nenana would be significantly more expensive than it would be from Manley. A reasonable range of alternatives would be evaluated. He shared that there was a potential Roads to Resources project in the Nenana area heading west; the department would take it under advisement and would look at all of the facts moving forward.

Senator Egan observed that the Tanana road would be 54 miles and the current request was for \$10 million. He queried how much the total cost would be for the project. Mr. Kemp replied that the road currently extended beyond Tofty Road, but DOT did not know where it ended and believed it extended upwards of 10 miles. He believed construction on virgin lands would be approximately 30 miles. The department was hoping the \$10 million would cover clearing the corridor, mapping the right-of-way, and providing access to enable DOT to evaluate future costs. He pointed to the Alaska Highway as a model; a basic road had been built and improvements had been made over approximately 50 years. He surmised that a similar approach would be used in the Tanana area. He added that the approach would be determined and that much more information would be learned during the NEPA process.

9:44:30 AM

Mr. Kemp discussed slides 9 and 10 titled: "Klondike Industrial Use Highway (IUH)." The slides included information on an upgrade to the Klondike Highway between the U.S. border and Skagway. The map on slide 9 showed all of the Yukon mineral claims. He stated that there was an explosion of new developments in the Yukon area. The department had struggled with how the heavy sulfide mines would export the ore. He communicated that DOT staff had recently attended a mineral conference in Vancouver, British Columbia; they had learned that Skagway was the common denominator for every mine shown on slide 9. He elaborated that the ore terminal transfer facility in Skagway would be the method of moving ore to other parts of the world. He pointed to the Selwyn mine (located in the far-east of the Yukon) that would truck the ore 700 miles to Skagway and would then ship it 7,000 miles to China.

Mr. Kemp shared that for economy the mines would be switching to much heavier 200,000 pound vehicles from 160,000 pound vehicles. He explained that Alaska's current bridges could not accommodate the ore haul; there was a very weak bridge on the Klondike Highway and the pavement had reached its useful life as well. The project would bring the highway back up to industry use standards and would fall under industry use highway regulations. The state had been charging tolls for permitted loads on the Klondike Highway for the past 26 years; proceeds had been reinvested in the highway for bridge and pavement upgrades and to ensure that ore could be hauled in a cost efficient manner.

Mr. Kemp reiterated that the bridge could not accommodate 200,000 pound vehicles. Tolls were based on 1985 rates and would need to be updated. He relayed that the project would pay for itself. The department had not checked with federal highways recently, but in 1985 the federal agency would provide funding to bring roads up to a regular traffic standard; the IUH funding would increase the standard to allow the industrial use. The department would check with federal highways to determine whether they would participate in the project funding. He shared that the strategy could be employed in other areas around the state (e.g. Ambler).

9:48:06 AM

Mr. Kemp turned to slide 11 that included a list of other potential projects including rare earth, coal, gas, and rock. A \$2 million request in the proposed budget would enable DOT to evaluate the projects and to present them to the legislature to determine their feasibility.

Co-Chair Stedman relayed that he had asked Mr. Kemp to take a look at some of the smaller projects (ranging from \$10 million to \$20 million) shown on slide 11. He pointed to the Bokan Mountain Mine (rare earth) and Niblack Mine access on Prince of Wales as examples. His office had discussed the projects (including the Katlain Quarry) with the U.S. Forest Service. He referred to letters of inquiry from Native corporations with land in the areas that roads would go through or connect to. He furthered that the Katlain Quarry road had been initiated by a Native corporation in Sitka. He had asked DOT to provide additional detail on the Southeast projects.

[9:50:02 AM](#)

Co-Chair Hoffman stated that there were specific projects with identified value including Donlin Creek, which had proven reserves in excess of \$30 billion. He was surprised that a project of that size was not included on the department's list of potential projects. He asked whether the project was not significant enough to warrant development. He surmised that the project would provide 400 to 500 jobs and would boost the economy in one area of the state. He wondered why the project was not on the department's list and believed it had been ignored.

Mr. Kemp replied that Donlin Creek is owned by NovaCopper. He furthered that DOT had been told that the state's help was not needed on the development. Additionally, the department had been told recently that its help was not needed on gasline construction at Beluga. The department was aware of the projects, had asked if help was needed, and would not get involved unless it was asked to.

Co-Chair Hoffman asked for a copy of the communications.

Senator McGuire asked for any information on potential smaller road opportunities on the west side of Cook Inlet. She was surprised that more discussion had not been included related to the region.

Mr. Kemp responded that the list shown on slide 11 was only an example of potential projects. He was uncertain about other projects located in west Cook Inlet and would follow up with DNR to provide additional information to the committee.

[9:52:59 AM](#)

Senator Olson discussed his previously cited concerns regarding opposition to proposed projects, specifically the road to Umiat. He surmised that once millions of dollars had been spent on a project it became more likely the development would continue despite any opposition. He asked about the average length of time it took for the NEPA process to run its course and for final results to be obtained.

Mr. Kemp responded that he was not very familiar with the core NEPA process, which would be used. He shared that the federal highway NEPA process took an average of 13 years (taking lawsuits and studies into consideration).

Senator Olson stated that once more and more money had been used on a project it would not be financially feasible to consider an alternative route. He wondered about the department's thoughts on the issue if significant opposition was maintained. Mr. Kemp answered that DOT believed the \$10 million request for Umiat would be sufficient for the NEPA process. He surmised that after the NEPA process a legal process would probably occur if opposition was maintained.

Senator Olson asked if he could be assured that the following year there would be no additional funding requests for the road to Umiat. Mr. Kemp replied that if "by a miracle" the record of decision and permitting had been obtained that DOT may request construction funding for the project the following year. He added that the likelihood was very low. Senator Olson did not believe that would happen.

[9:54:54 AM](#)

Co-Chair Stedman stated that the success rate on major access roads in the Southeast had been stalled for 30 years. He mentioned the road out of Juneau and others. He

thought 13 years [in relation to the federal highway NEPA process] may be optimistic. He communicated that the lengthy process was one of the reasons that smaller projects had been looked at for the Southeast region, specifically the Bokan Mountain Mine and Niblack Mine access roads. He noted the projects were much smaller than Donlin Creek.

Mr. Kemp believed it was evident that Alaska's economy was based on resource extraction. He pointed to the map of the Yukon (slide 9) and observed that the territory was far ahead of Alaska due to its reliable, all season road network that allowed it to access resources. Alaska was limited to one long, skinny road from the Dalton Highway up to the petroleum rich area in Prudhoe Bay; there were no side roads or access to mineral and petroleum deposits. He stated that Alaska was resource rich, but access poor. He believed the governor's Road to Resources program was intended to develop a well thought out surface transportation network. He opined that it would create jobs, a good economy, and would enhance the state's economic viability for a significant period of time.

Co-Chair Stedman shared that the committee would look forward to additional information from DOT related to projects throughout the state; the committee would work with the department over the next several years to move towards completion on some of the projects. He believed the entities would also be tasked with prioritizing projects and locating funding.

Co-Chair Stedman discussed the schedule for the following meeting.

ADJOURNMENT

[9:57:50 AM](#)

The meeting was adjourned at 9:57 a.m.