

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

January 24, 2014

1:03 p.m.

MEMBERS PRESENT

Representative Eric Feige, Co-Chair
Representative Dan Saddler, Co-Chair
Representative Peggy Wilson, Vice Chair
Representative Kurt Olson
Representative Paul Seaton
Representative Scott Kawasaki
Representative Geran Tarr

MEMBERS ABSENT

Representative Mike Hawker
Representative Craig Johnson

COMMITTEE CALENDAR

OVERVIEW(S) - DEPARTMENT OF NATURAL RESOURCES

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

JOE BALASH, Commissioner
Department of Natural Resources (DNR)
Anchorage, Alaska

POSITION STATEMENT: Presented an overview of DNR.

FRANCI HAVEMEISTER, Director
Division of Agriculture
Department of Natural Resources (DNR)
Palmer, Alaska

POSITION STATEMENT: Presented the portion of DNR's overview relating to the Division of Agriculture.

JOHN "CHRIS" MAISCH, Director
Division of Forestry
Department of Natural Resources (DNR)

Fairbanks, Alaska

POSITION STATEMENT: Presented the portion of DNR's overview relating to the Division of Forestry.

STEVE MASTERMAN, Acting Director
Division of Geological & Geophysical Surveys
Department of Natural Resources
Fairbanks, Alaska

POSITION STATEMENT: Presented the portion of DNR's overview relating to the Division of Geological & Geophysical Surveys.

MARCIE MENEFEE, Executive Director
Alaska Mental Health Trust Land Office
Office of the Commissioner
Department of Natural Resources
Anchorage, Alaska

POSITION STATEMENT: Presented the portion of DNR's overview relating to the Alaska Mental Health Trust Land Office.

BRENT GOODRUM, Director
Central Office
Division of Mining, Land and Water
Department of Natural Resources (DNR)
Anchorage, Alaska

POSITION STATEMENT: Presented the portion of DNR's overview relating to the Division of Mining, Land and Water.

BILL BARRON, Director
Central Office
Division of Oil & Gas
Department of Natural Resources
Anchorage, Alaska

POSITION STATEMENT: Presented the portion of DNR's overview relating to the Division of Oil & Gas.

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

POSITION STATEMENT: Presented the portion of DNR's overview relating to the Division of Parks & Outdoor Recreation.

TOM CRAFFORD, Director
Office of Project Management & Permitting (OPMP)
Department of Natural Resources
Anchorage, Alaska

POSITION STATEMENT: Presented the portion of DNR's overview relating to the Office of Project Management & Permitting.

ALLISON IVERSEN, Acting State Pipeline Coordinator
State Pipeline Coordinator
Office of the Commissioner
Department of Natural Resources
Anchorage, Alaska

POSITION STATEMENT: Presented the portion of DNR's overview relating to the State Pipeline Coordinator.

JEAN DAVIS, Director
Central Office
Division of Support Services
Department of Natural Resources
Juneau, Alaska

POSITION STATEMENT: Presented the portion of DNR's overview relating to the Division of Support Services.

ACTION NARRATIVE

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CO-CHAIR DAN SADDLER called the House Resources Standing Committee meeting to order at 1:03 p.m. Representatives Seaton, Olson, P. Wilson, Kawasaki, Feige, and Saddler were present at the call to order. Representative Tarr arrived as the meeting was in progress.

OVERVIEW(S) - Department of Natural Resources

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CO-CHAIR SADDLER announced that the only order of business is an overview presentation by the Department of Natural Resources.

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JOE BALASH, Commissioner, Department of Natural Resources (DNR), presented a PowerPoint overview regarding the roles and responsibilities of DNR. He said DNR is the primary land manager for Alaska, overseeing more than 100 million acres of uplands, and an additional estimated 60 million [acres] of submerged land comprising rivers, lakes, and tidelands.

COMMISSIONER BALASH said many directors are responsible for carrying out the functions of the department. He reviewed the recent shifts in positions that took place upon the resignation of the former commissioner, Dan Sullivan, and stated that each of the directors would come before the committee to relate their accomplishments over the last year using the resources provided and the authorities given. He indicated that there could be opportunity for the department to return with more information as the legislature wishes it.

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COMMISSIONER BALASH noted that Eric Hatleberg, acting director of the Gas Pipeline Project Office (GPPO), is unable to be present today. In Mr. Hatleberg's stead, he reported that the department continues to have monthly meetings with its Alaska Gasline Inducement Act (AGIA) licensee and its partners on the Alaska Pipeline Project [slide 3]. He reminded members that that office and function would be transitioned later in 2014. Over the course of 2013, GPPO maintained regular oversight of project development plans, which is "a precursor and an element that feeds into the reimbursement process under that particular statute." The [GPPO] engaged in a number of other activities, including hosting a presence at Liquefied Natural Gas (LNG)-17, a triennial meeting that occurs globally and took place in Houston, Texas, back in April. Further, GPPO contributed to an analysis done by Black & Veatch on a royalty study, which took place over the summer and fall of 2013. The office also met with various LNG buyers and signed a memorandum of understanding (MOU) with Resources Exploration, Inc. (REI) - one of the parties interested in collecting a number of buyers in Japan in a consortium.

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FRANCI HAVEMEISTER, Director, Division of Agriculture, Department of Natural Resources (DNR), paraphrased the division's mission statement, which read as follows:

The mission of the Division of Agriculture is to promote and encourage development of an agriculture industry in the State.

MS. HAVEMEISTER said one of the ways the division carries out its mission is through its Inspection Section [slides 4-5]. In 2012 and 2013, the division conducted surveys on diseases and pests of concern to agriculture. Natural resources and

international trade surveys were conducted for Lepidoptera pests, which are large insects, including moths and butterflies, potentially affecting the timber industry, as well as studying nematodes and thrips. The absence or presence of a pest determines whether treatment is necessary prior to exporting a product such as peonies or timber.

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MS. HAVEMEISTER related that inspections were conducted at the U.S./Canada border, in cooperation with Customs Border Patrol, in an effort to evaluate pest pathways in products of concern. Seed potatoes and tomato plants were detained at the border because they lacked the required certification to enter the state. The division performed timber and agriculture export certification on over \$143 million of timber in fiscal year 2013 (FY 13); the timber was bound for the export market to [South] Korea, China, and Japan. She said the peony industry continues to expand; shipments were sent to Taiwan in 2013.

MS. HAVEMEISTER stated that Land Section staff continues to identify land with soil suitable for agricultural production. Staff, working cooperatively with the Division of Mining, Land and Water, increased agricultural land designations by 35,000 acres in the Yukon, Canada, area plan. Discussions have continued with farmers and stakeholders regarding the agricultural land program. Six meetings were held in 2013 addressing topics such as clearing requirements, future sales, and agriculture covenants.

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MS. HAVEMEISTER relayed that the Plant Materials Center (PMC) - a 407-acre production farm - produces foundation seed for grain and native grass growers, produces G0 seed potatoes for certified seed producers, and houses the only certified seed lab and seed cleaning facility within the state. Variety trials were conducted on onions and asparagus and are currently being conducted on apple root stock and potatoes. The division is currently working with the Alaska Department of Fish & Game (ADF&G) and the Department of Environmental Conservation (DEC) on efforts to control the spread of Elodea. The division held public meetings in Anchorage and Homer to discuss treatment options and worked with both departments to establish guidelines on permitting requirements for treatment.

MS. HAVEMEISTER stated that Marketing [Services] continues to find ways to market the Alaska Grown Program. There are 75 new farm business members - an increase of 13 percent from 2012. The Alaska Grown Facebook page remains content driven, continues to be an effective tool for outreach and education, and has over 15,000 "likes" and much traffic daily. In 2013, the division's Restaurant Reward Program had 21 participating restaurants, which increased use of Alaska Grown by 44 percent from the previous year. The markets able to accept the Supplemental Nutritional Assistance Program (SNAP) doubled from five to ten in 2013, bringing approximately an additional \$30,000 to Alaska's farm markets, which are located in Sitka, Bethel, Southcentral, Fairbanks, and "on the Kenai."

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MS. HAVEMEISTER announced that the division's Farm to School Program was selected to receive the Alaska Community Service Award for Health at the Alaska Health Summit Awards Luncheon on January 29, 2014, in recognition of an organization that is making a significant contribution to improving the health of Alaskans. The division hosted on-farm food safety workshops. Fifty producers attended; seventy six percent of attendees indicated they would make changes to their farm practices as a result. She said 25 of 51 school food service directors completed the division's Farm-to-School survey; 100 percent of participants agreed that there had been an increase in local foods served in schools as a direct result of the Farm to School Program. The Farm to School projects have been successful throughout the state and recognized nationally, with 80 percent of Alaska's school districts (47 out of 54 districts) actively engaged in the program.

MS. HAVEMEISTER quoted Stacey Sobell, Western Regional Lead for the National Farm to School Network, as follows:

Alaska is recognized as a national leader in Farm to School, producing models that have been shared with and emulated by other states across the country.

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MS. HAVEMEISTER said the Alaska Food Resource Working Group was formed through Administrative Order 265. Signed into law by Governor Sean Parnell in June 2013, it was the result of HCR 1. The objective of the order is to improve the health of state residents, increase food security, strengthen local economies,

and encourage community development. The group has met twice, with the latest meeting held early in January 2014, at the Plant Materials Center in Palmer, and it included invited testimony from vegetable producers from the valley. She concluded, "This group will provide recommendations for policy changes that will increase the use of locally grown and harvested food, which will ultimately provide additional markets for Alaska producers."

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JOHN "CHRIS" MAISCH, Director, Division of Forestry, Department of Natural Resources (DNR), said he would highlight the division's key accomplishments in its Wildland Fire and Forest Management programs [slides 6-7]. He said the mission statement of the division underlines its focus on serving Alaskans through forest management and wildland fire protection.

MR. MAISCH directed attention to the photo of wood pellets on slide 6 that are being produced at a facility in North Pole. He said wood pellets are used both for residential and commercial heating purposes in Interior Alaska. The facility has begun manufacturing compressed firewood, which is dried and can be used in wood stoves, and which will help greatly with the air quality in Fairbanks. The pellets are made from Alaska forest wood and the bags have "Made in Alaska" written on them.

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MR. MAISCH stated that the division, in response to the Governor's Alaska Timber Job Task Force recommendations, has established a "Roads Office" in which two logging engineers work on statewide access development projects. This office is promoting the proposed Susitna State Forest legislation comprising HB 79 and SB 28 and is using a \$2 million capital improvement project (CIP) to develop infrastructure to access Southeast Alaska state forest parcels at Gravina Island and Edna Bay. The office has offered a 25-year-long timber sale in the Interior for 35,000 green tons of biomass per year to support the Combined Heat and Power (CHP) project proposed by Alaska Power and Telephone, with biomass currently available as an over-the-counter (OTC) sale. The office has sold over 16 million board feet of timber to 37 Alaska businesses across the state and provided direct and indirect support to 105 woody biomass projects shown on an AEA map. The office is continuing to work with the U.S. Forest Service to implement the 2008 Tongass Land Management Plan (TLMP) to support the timber industry in Southeast Alaska.

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MR. MAISCH directed attention to slide 7 which lists key accomplishments of the division in 2013. He said most notable is the division's successful and safe response to the fourth largest fire season over the past ten years, involving 1.3 million acres and 613 fires. The 2013 season was also the second largest fire season out of the past five years. The division's other achievements include: continuing to build and deploy the Integrated Fire Management software tool to improve initial attack and overall fire management; completing procurement of an Aero Turbo Commander, with a second purchase closing this month, and both planes being used in a lead plane role with retardant ships and providing overall air coordination between helicopters, jump ships, and retardant ships; and completing the training of 20 crewbosses, which are needed to lead each 19-person emergency fire fighter (EFF) Type II Crew. He noted that the photo depicts two crewbosses who had just completed their training. He further noted that the aircraft shown in the background of slide 7 is a "water scooper."

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MR. MAISCH added that the division has partnered with the University of Alaska Fairbanks (UAF) to deliver the Wildland Fire Academy; offered 14 internships for past academy graduates to integrate them into the program and build "a recruitment pipeline"; received five competitive Wildland Urban Interface (WUI) funding grants for a total of over \$1 million in hazard fuel mitigation projects in the Matanuska-Susitna Valley, Fairbanks, Kenai, and Tok; and developed a project and concept paper in collaboration with the Cold Climate Housing Research Center (CCHRC) in Fairbanks for a new wildland fire center in the Interior. He stated that CCHRC is a leading entity in regard to energy efficiency in residential construction, and the division is trying to emulate that for commercial construction.

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STEVE MASTERMAN, Acting Director, Division of Geological & Geophysical Surveys, Department of Natural Resources, stated that his division's mission is to determine the potential of Alaska land for production of minerals, fuels, geothermal resources, the locations and supplies of groundwater and construction, and the potential geologic hazards to buildings, roads, bridges, and other infrastructure in communities [slides

8-9]. The Minerals Section of the division is tasked with determining the potential of Alaska lands to host mineral occurrences. In 2013, a key accomplishment of this section was completing the mapping and sampling of a 2,600-square-mile area between Paxson and Talkeetna for platinum group elements. This was part of the Strategic and Critical Minerals Program and the results will be released shortly. Under this program the division has collected, sampled, and analyzed about 10,000 rock samples and stream sediment samples; the results are published and made available as they are received. Another achievement for this section was the either the acquisition or publishing of over 4,500 square miles of airborne geophysical data. The section also mapped 212 square miles in the Styx River region, which has some copper and gold deposits.

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MR. MASTERMAN said the Energy Section is responsible for determining the potential of state lands for energy resources. In 2013 this section mapped a 250 square mile area on the west side of Cook Inlet, looking at the deeper Mesozoic rocks which are the source rocks for the petroleum systems in upper Cook Inlet. That information will be published and the industry is keenly interested in that. As part of that work two new oil-stained exposures were discovered in west Cook Inlet, which has generated a lot of interest. On the North Slope the Energy Section is collaborating with the University of Alaska, Fairbanks (UAF) and the U.S. Geological Survey (USGS) looking at oil shale occurrences and the potential to host tight oil. This section also completed a compilation of geothermal data from around the state, which will be published shortly in both online and hardcopy formats.

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MR. MASTERMAN explained that the Geological Materials Center, currently located in Eagle River, houses the state's collection of oil and gas and mineral samples from bore holes and surface exposures. The center is in the process of being relocated to a newly purchased building on Penland Parkway in Anchorage. Construction will be completed this summer and relocation of the collection is expected in late summer with a grand opening expected in September 2014. The mineral and oil and gas industries are looking forward to the expanded access this new building will provide.

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MR. MASTERMAN discussed the Engineering Geology Section, noting that this section works on geological hazards, groundwater issues, and construction materials. [In 2013] a hydrogeology program was initiated with the main focus to assess groundwater systems and resources in areas of development, primarily oil and gas fields and primarily the North Slope where an understanding of the groundwater system is going to be critical going forward. This section also worked with several other organizations on engineering and geology studies, including the Yukon River Bridge, various gas pipeline corridors, and on the Susitna-Watana Dam. Another component of the Engineering Geology Section is tsunami inundation mapping, which was completed and published in 2013 for the communities of Valdez and Sitka. Lastly, this section worked in western Alaska on coastal hazards, primarily on erosion and flooding issues.

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MR. MASTERMAN specified that the Volcanology Section is part of the Alaska Volcano Observatory in conjunction with the University of Alaska and the USGS. [The Observatory's] primary role is to monitor and issue alerts when there are volcanic eruptions. The Volcanology Section continued its work on some recently active volcanoes and will do so again this coming year.

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MR. MASTERMAN stated that the Geological Communications Section is the glue that holds all the aforementioned together and makes it all happen. This section handles the division's computer network systems and website, as well as publishes all of the division's reports. A key 2013 accomplishment for this section was launching a completely new dataset where the data is live on the division's web site. People can view and interact with the data and select what they want to download. Online access to data is becoming more common and is a cheaper method for getting information to the public. The demand for paper reports and maps is decreasing as the availability of information increases online. The Geological Communications Section published 52 new geologic maps and reports and had over 6 million web page hits. Additionally, the division has a Facebook presence and a Twitter feed, so information is being disseminated in many ways.

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MARCIE MENEFEE, Executive Director, Alaska Mental Health Trust Land Office, Office of the Commissioner, Department of Natural Resources, stated that the mission of her office is to manage the one million acres of Alaska Mental Health Trust Lands in Alaska for both its beneficiaries and the Trust itself [slide 10]. She noted that this was less than 1 percent of the state lands. The goal is to create revenue streams from the natural resources on this land. The Trust office conducted two small timber sales in Southeast Alaska which generated over \$1 million in revenue. She said that a proposed timber land exchange with the Tongass National Forest, with possible completion in the next two years would give the Trust a sustainable timber portfolio for perpetual harvest. She directed attention to the land sales program, noting it is a hallmark of success, having contributed more than \$20 million in revenue. Additionally, coal and hard rock mining contributed over \$5 million of revenue in 2013 with 350,000 acres of Trust land under exploration license or leased for production. The goal in 2014 is to increase this to 450,000 acres, with almost half of the land being for coal or hard rock mineral production. She reported that the new oil and gas program resulted in the record annual revenue of \$3.2 million in Cook Inlet. The commercial real estate program, in its second year of implementation, brought in just over \$0.8 million and is projected to soon create revenue income of about \$4 million. She stated that over the last 19 years the Trust Land Office has generated about \$158 million in revenue and is working to advance and improve this through new and existing initiatives.

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MS. MENEFEE, responding to Co-Chair Saddler, said beneficiaries of the Trust include people with developed disabilities, including Alzheimer's and other dementias, as well as people with brain injuries and alcohol and substance abuse issues.

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BRENT GOODRUM, Director, Central Office, Division of Mining, Land and Water, Department of Natural Resources (DNR), said the division is heavily engaged in a comprehensive, multi-faceted approach to eliminate the permit backlog and to prevent any further recurrence [slide 11]. Since Fiscal Year 2012, the backlog has been reduced by 53.5 percent, about 1,421 authorizations. Last year the division issued [794] authorizations; additionally, the Mining Section issued 724 Applications for Permits to Mine in Alaska (APMA).

MR. GOODRUM said a critical component of improving permitting efficiency is modernizing the process through the Unified Permit Project. During the last year the land use permits have been issued through automation and in the next month the water rights element will also be automated. Statewide projects that his division has been involved in include: the Port McKenzie rail extension, Roads to Resources projects, North Slope oil and gas exploration, the City and Borough of Juneau (CBJ) cruise ship dock decision, and the Alaska Industrial Development and Export Authority's (AIDEA) liquefied natural gas (LNG) trucking.

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MR. GOODRUM noted that his division inspected the network of more than 377 miles of ice and road on the North Slope. The 2005 Bristol Bay area plan was successfully amended last year, with significant public participation and input. Classification for wildlife habitat in that area plan was increased by more than 2.6 million acres and public recreation area was increased by more than 1.1 million acres. Close work with the U. S. Coast Guard and Department of Environmental Conservation (DEC) over the last year resulted in the successful removal of submerged vessels that had concerned local mariculture farms. He declared that stewardship is important to the division. Lastly, the division and the Bureau of Land Management (BLM) have entered into a cooperative agreement to help resolve long-standing Native allotment issues.

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BILL BARRON, Director, Central Office, Division of Oil & Gas, Department of Natural Resources, stated that his division is responsible for leasing and land management associated with oil, gas, and geothermal activities on state land [slides 12-13]. Ninety leases were awarded in the recent North Slope sale, he noted, and all were issued within seven weeks of the sale. He compared this to a former time frame of eight to twelve months, declaring that the leasing section had increased its efficiency. The Resource Evaluation Section is working with the U.S. Geological Survey (USGS) and the U. S. Department of Energy in researching methane hydrates on the North Slope. This research is a first, not only for the state but also for the nation.

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MR. BARRON reported that the Commercial Section reviewed the financial ability of both large and small companies to cover the requirements of dismantlement, removal, and restoration of onshore and offshore facilities in Cook Inlet, and determined bonding and other financial means to secure the funds required. Lastly, he noted, the Petroleum Systems Integrity Office (PSIO) collaborated with the State Pipeline Coordinator's Office on an issue with debris in the Alyeska pipeline.

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BEN ELLIS, Director, Central Office, Division of Parks & Outdoor Recreation, Department of Natural Resources, cited a semi-annual report recently sent to all legislators on the status of parks and recreation, primarily within each legislator's area. The report outlines work to be done in each area, including deferred maintenance and capital improvement projects. He expressed appreciation for legislators disseminating this information to constituents. He said there are 82 permanent staff, 23 non-permanent staff, and 800 volunteers in outdoor recreation management, watching over 3 million acres in the state parks. Wood-Tikchik State Park with 1.6 million acres and Chugach State Park with .5 million acres are the two largest parks, plus an additional 124 park units, 900 miles of developed trail, and 71 campgrounds. He noted that the division collaborates with the Alaska Department of Fish & Game and other state agencies for support. Administrative costs for the trails office are primarily supported with federal funding, but some of that funding is ending. The trails office acted as a clearing office for \$1.6 million of federal money, although half of the money was allocated to local communities for local programs. Also administered through the trails office is the Snow Track Program, which is funded from snowmachine registration fees of about \$220,000-\$250,000 annually.

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MR. ELLIS reported that this January 1 was the third consecutive year that State Parks has participated in a nationwide first day hike, bike, or cross country ski program. Additionally, during the summer there is a trails day program. He said the Office of History & Archaeology employs 12 archaeologists and 7 historians and reviews about 260,000 projects annually. The office primarily works in coordination with transportation and resource development agencies to ensure that the state's history and archaeology is protected, while allowing for projects to continue. Mr. Ellis pointed out that the Design & Construction

Section is unique in that only 2 of the 16 staff are paid through general funds and the others are paid through the project agencies. He praised the Office of Boating Safety as one of the most outstanding nationwide programs, saying it has "saved a number of children's lives."

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MR. ELLIS announced that, for the first time in 30 years, a new campground project had been started - the South Denali Visitor Center Complex. This \$47 million project is the largest project the Division of Parks & Outdoor Recreation has been involved with. He lauded the Alaska State Legislature for its efforts to appropriate almost \$22 million and noted that this project includes a 2.3 mile access road into the campground, which, depending on weather, will be completed in either August 2014 or in the summer of 2015. He reflected that the visitor's center could become a significant profit center for State Parks.

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TOM CRAFFORD, Director, Office of Project Management & Permitting (OPMP), Department of Natural Resources, explained that the Office of Project Management & Permitting (OPMP) facilitates the coordination of permitting between project applicants and state agencies; the office does not have any regulatory authority. He pointed out that OPMP also helps with tracking and state response to federal initiatives for project plans. Funding is usually through reimbursable agreements and Memorandums of Understanding (MOU) with the project applicants. Accomplishments of OPMP in 2013 include MOUs with Buccaneer Energy Ltd. for projects in the Cook Inlet area and offshore, and with Conoco Phillips for its Greater Moose's Tooth project. In regard to mining, OPMP also signed MOUs with Graphite One Resources and with Free Gold Ventures Ltd.

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MR. CRAFFORD discussed OPMP's work with Apache Corporation on its Cook Inlet seismic program, which includes acreage in the Kenai National Wildlife Refuge. He said it is a complex process to negotiate the permitting maze for authorization in the refuge. He noted that OPMP was very involved with coordination of state and federal agencies in the proposed Izembek National Wildlife Refuge land exchange. While this exchange was denied, he said there will be future discussions. He referenced OPMP's work to coordinate the state review of the Environmental

Protection Agency (EPA) assessment document for Bristol Bay with state agencies. Moving on to the Red Dog Mine, he said this was the first year that this mine has had a regularly required environmental audit, as the mine had begun operations prior to current authorizations and regulations. In regard to the Pogo Mine, OPMP was involved with the permitting of its latest project, and the expansion of its dry stack tailings disposal facility. The Greens Creek Mine has undergone the Environmental Impact Statement (EIS) permitting process for expansion of its dry stack tailings disposal facility, although the permits have not yet been issued by the state agencies. He said OPMP will also be involved with state agency coordination of the EIS process for the Donlin Gold LLC mine on the Kuskokwim River.

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ALLISON IVERSEN, Acting State Pipeline Coordinator, State Pipeline Coordinator, Office of the Commissioner, Department of Natural Resources, explained that the State Pipeline Coordinator's office issues leases for state land for pipeline rights of way and guides the state policies in AS 38.35 concerning the development, use, and control of pipeline transportation systems within the state. She said recent accomplishments include facilitation of the Badami Pipeline System transfer of interest from BP (Transportation) Alaska to Nutaaq Pipeline, LLC, a conglomerate of Savant and ASRC Exploration. The office has released its 2013 annual report, a compilation of activities from DNR and other state agencies within the State Pipeline Coordinator's office. She said it is critical to review compliance and the other permitting efforts associated with pipelines.

MS. IVERSEN stated that her office facilitated the Oliktok change-of-service from natural gas liquids to natural gas. She reported that work is ongoing for a preliminary decision on Trans-Foreland Pipeline Company's amended application for a 28-mile-long pipeline under Cook Inlet. The office also worked on several applications and projects on the North Slope, including facilitating an LNG trucking operation to bring gas to Fairbanks, issuing a lease to Spectrum LNG for an eight-inch pipeline, and completing the commissioner's analysis and proposed decision for the Polar LNG project.

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MS. IVERSEN said her office regularly issued Trans-Alaska Pipeline System (TAPS) amendments to complete system upgrades,

improvements, and necessary maintenance activities. The office continued to coordinate state permitting and right of way efforts for the Alaska Stand Alone Pipeline (ASAP) and for the Alaska LNG pipeline project. The office issued permits and coordinated multiple permits with other agencies, including the Alaska Department of Fish & Game, Department of Transportation & Public Facilities, and the Office of History & Archaeology. Directing attention to the Point Thomson project, she said her office will be in the field monitoring completion of the export pipeline project.

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JEAN DAVIS, Director, Central Office, Division of Support Services, Department of Natural Resources, explained that her division is the administrative support arm for about 1,000 DNR employees in 32 statewide locations [slide 19]. These services include information technology (IT) infrastructure for managing land records, desktop support, network and servers, mapping, and business process automation. Services also include accounting and financial support for paying invoices and recording DNR's revenue, about \$2.6 billion in 2013, and accounting of the federal grants that come into the department. She noted that her division assists all of the divisions in preparing the budgets, working through the appropriation process, and implementing and monitoring the budgets. The division provides procurement and facility support for purchases of goods and services, as well as contract analysis for complex economic development.

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MS. DAVIS added that the Division of Support Services also supports all of DNR's recruitment, hiring, and management through the Human Resources Section. Lastly, she pointed out that the division houses the State Recorder's Office, which provides the permanent record for mortgages, deeds, and liens on real property. She listed the division's key accomplishments: implementation of electronic recording (eRecording) throughout the state, allowing DNR customers to file documents electronically; programming support for the Unified Permit Automation Project; and participated in the Department of Administration's Integrated Resource Information System Project (IRIS), which will replace the state's payroll, accounting, procurement, and human resources programs.

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CO-CHAIR FEIGE, addressing Commissioner Balash, requested more detail about the MOU between the Gas Pipeline Project Office (GPPO) and Resources Energy, Inc. (REI) to focus effort on the Cook Inlet LNG export project.

COMMISSIONER BALASH responded that REI had initially expressed interest in participation with the commercialization of North Slope gas as LNG. The initial MOU signed with REI, by GPPO's previous director, was to coordinate, provide information, and help REI better understand the opportunities with regard to North Slope gas. During fourth quarter 2013, it became clear that the timeline that REI was seeking to achieve would not match with the Alaska LNG project. Instead of the North Slope, REI and GPPO turned their focus toward opportunities in Cook Inlet, which has a smaller configuration and output of LNG.

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REPRESENTATIVE SEATON, addressing Ms. Havemeister, noted that in its audit of the Agricultural Revolving Loan Fund, the Division of Legislative Audit suggested that the expertise of the Department of Commerce, Community & Economic Development (DCCED) would be more in line with the granting of successful loans than the Division of Agriculture. He inquired whether the Division of Agriculture supports or opposes this suggestion.

MS. HAVEMEISTER replied that, although the division has stated on the record that it does not agree with everything in the audit, there is some good information in the audit which the division is looking to incorporate. She added that it is good to review procedures and processes. She expressed support for the Board of Agriculture & Conservation's administration of the program.

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REPRESENTATIVE SEATON said the audit looked at the history of the loans granted and the financial expertise for approval of loans, which, he opined, was much more in line with DCCED. He requested clarification on whether DNR supports that the loan program be directed by people familiar with agriculture, but not as familiar with the granting of institutional loans. He further asked how this deficiency identified by the audit would be addressed.

MS. HAVEMEISTER offered her belief that the audit addressed a need to review current regulations. She pointed out that the staff loan officer and the Board of Agriculture & Conservation followed the regulations for approval of loans. She said the DNR response letter, although it cited room for improvement, declared support for the loan program. She understood that HB 207, introduced by Co-Chair Feige, would move the final loan approval to DCCED while the management and loan functions of the ARLF would remain with the Board of Agriculture & Conservation.

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REPRESENTATIVE OLSON inquired whether the Division of Agriculture has taken a position on HB 231, which addresses cattle brands.

MS. HAVEMEISTER responded that the division has authority over brands and administers the brand program. She offered her belief that the authority is contained in both the Department of Revenue and the Division of Agriculture.

[2:19:55 PM](#)

REPRESENTATIVE TARR offered her support for the Farm-to-School Program and requested a comparison of the program's proposed budget for this year to that of last year. She understood that last year it was unclear whether there would be funding to continue this program.

MS. HAVEMEISTER replied that there is funding in the governor's budget this year to continue the Farm-to-School Program. Last year, due to a fiscal error that was overlooked, the program is in statute for four years but only had a fiscal note for three. Thus, last year was just a one-year fiscal note to meet the sunset date. She believed the budget increment to continue the program into the baseline budget is for \$181,000.

[2:20:56 PM](#)

CO-CHAIR FEIGE recalled that in last year's legislative session funds were re-appropriated from the university to the Plant Materials Center for improvements in the seed potato program. He inquired how that funding was spent.

MS. HAVEMEISTER answered that the aforementioned budget request was just completed by the division for the department's approval. The plan is to use part of the money for disease

testing on potato products at the Plant Materials Center; conduct a potato symposium at which experts from the Lower 48 will address disease issues as well as certification; partner with the University of Alaska to do variety tests and disease testing at the university's Trunk Road facility; and train another inspector in potato disease inspections because the current inspector will be retiring in late spring 2014.

[2:22:14 PM](#)

REPRESENTATIVE TARR requested an update on the ongoing dairy issues in the Matanuska-Susitna Valley so as to help committee members reflect about better management of the Alaska Revolving Loan Fund (ARLF).

MS. HAVEMEISTER replied that in 2007 an ARLF asset, Matanuska Maid, the only processing facility within the state of Alaska, was closed by the Board of Agriculture. At that time, another dairy received about \$600,000 in federal funds to continue the program, and this dairy came to the ARLF requesting additional funds to create its own creamery to process local milk. The board made very difficult decisions with the direction from then-Governor Palin to assist the dairy industry, approving loans to assist the [new] dairy. That dairy closed about a year ago and the board called the approximately \$800,000 in loans, so there was a loss to the ARLF. Assets were sold, but there is not a big demand for creamery equipment within this state. The ARLF had a loss that year of approximately \$500,000 but continues to revolve. Typically, the ARLF has an annual gain of about \$400,000-\$500,000 with interest.

[2:24:04 PM](#)

CO-CHAIR SADDLER offered his thanks to Ms. Havemeister for the legislative tour of the Plant Materials Center last summer.

[2:24:20 PM](#)

REPRESENTATIVE SEATON, addressing Mr. Maisch, reported that a number of old forestry roads on the "Kenai watershed" have culverts that no longer allow fish passage. The borough is trying to clean some of those up, but the old forestry roads that were transferred to Native corporations are no longer being assessed as to their condition. He inquired whether the Division of Forestry is looking at old forestry roads and the culverts blocking fish passage.

MR. MAISCH replied that the aforementioned conversation started at the Board of Forestry meeting held on the Kenai about a year ago. He said roads that initially met forestry standards but were then converted to other uses do not fall under the state's Forest Practices Act and therefore such roads are not directly under the purview of the Division of Forestry to continue monitoring. The division does have a road condition survey that is looking at old forest roads, especially roads in place prior to the Forest Practices Act. These "legacy" culverts are color coded based on whether anadromous fish can or cannot pass through, with red indicating a culvert that cannot pass anadromous fish. The division is working its way through state-owned road systems that have red pipes, replacing them as funds are available. The Department of Transportation & Public Facilities (DOT&PF) is doing the same thing. The legacy road systems are more of an issue, especially if they are on private lands, because they were not required to meet those standards at the time they were built. In these cases it is more of a carrot approach than a regulatory approach.

[2:26:37 PM](#)

REPRESENTATIVE SEATON asked whether anyone else in DNR has responsibility for looking at the aforementioned. He said most are in the Matanuska-Susitna Valley, which has lots of problems with habitat issues and anadromous fish.

MR. MAISCH responded that it depends on who is the land manager or land owner of that road system. Boroughs acquired some of those road systems during borough selections. Responsibility then would lie with the borough to be in compliance with any fish passage requirements, which are actually administered via the Alaska Department of Fish & Game (ADF&G). Other than the Division of Forestry, DNR itself does not manage roads. The Division of Forestry is the only division that has that authority and responsibility under the Forest Practices for private and municipal and state lands if it is a forestry operation. Otherwise, it goes to who the land owner is and who actually owns the road for management purposes. The rest of the public road system falls with the Department of Transportation & Public Facilities (DOT&PF), which works with ADF&G to coordinate responses for culverts that do not pass fish. To his knowledge, conversation on this topic is frequent because it benefits no one to have culverts in place that do not pass fish.

[2:28:21 PM](#)

CO-CHAIR FEIGE commended the Division of Forestry for its work developing state forest resources for in-state use. He offered his understanding that the Alaska Fire Service (AFS) is basically the U.S. Bureau of Land Management (BLM), and it is BLM that hires the air tankers the state uses for fighting fire. He observed that the aircraft on slide 7 is a CL-215 water scooper and inquired whether the division has looked at acquiring a smaller water scooping aircraft to improve the state's ability to respond quickly and negate the need for sending a ground crew. He presumed that during low fire years the state could shop this smaller aircraft around the western states and generate revenue through inter-agency agreements.

[2:30:57 PM](#)

MR. MAISCH answered that when those assets are needed the division acquires them from other states through being a member of the Northwest Compact. The compact includes primarily the northern tier states, the western states, and several Canadian provinces. This year was very busy; the division had eight aircraft at one time, mostly CL-415s, which were ordered through the Northwest Compact. These assets can be brought on and used when needed and then released when not needed, which is the most cost effective way. There have been no issues with getting the aircraft when needed and releasing them when no longer needed. Single engine airtankers have been effectively used in Alaska for initial attack and can be ordered through the compact. While an aircraft can knock down a fire, it does not negate the need to put crew on the ground to dig out the fire and ensure that it really is out. On its contract and as part of the national firefighting effort, Alaska has been providing three retardant airtankers to the Lower 48 when the state's fire season is over because the U.S. Forest Service has a severe shortage of air tankers nationally. The state does not try to make a profit on that, it only covers its administrative expenses and some indirect charges. He advised that making a profit can work both ways - if Alaska does that to the others they will do that to Alaska.

[2:33:30 PM](#)

CO-CHAIR FEIGE surmised that Mr. Maisch believes the current arrangement offers the most efficient use of funds to take care of wildland fires.

MR. MAISCH replied yes, as long as the two CL-215s remain on contract instate with BLM AFS. Reallocating those to Boise as

their primary base has been discussed, but the division has not agreed with that and neither has AFS. Should that occur, the division would need to examine whether to acquire at least a 90-day contract for that type of resource in the state. In his opinion, Alaska has the right mix of aviation resources for doing the job, with the exception, perhaps, of rotor aircraft, a whole other topic.

[2:34:18 PM](#)

CO-CHAIR SADDLER, noting the federal pullback of funds, inquired about the funding status for state and federal initial attack firefighting crews.

MR. MAISCH responded that state fire assistance comes through a consolidated grant; therefore a lot of Alaska's firefighting resources depend on a piece of [federal] funding. Alaska's three initial attack crews are 100 percent federally funded, so the shrinkage of federal dollars is a real issue. Over the last 10 years, state fire assistance nationally has gone down almost 19 percent and another large decrease is expected in the next federal budget recently signed by Congress. The division has kept the crews going by applying for, and successfully competing for, hazard fuel monies, an example being the million dollars he mentioned previously. When not actually fighting fire the crews are doing hazard fuel mitigation. There are 60 positions of these highly trained individuals in Alaska, so decreased federal funding could be a significant challenge. This type of crew is always needed every fire season and these types of crews are brought from the Lower 48 every season as well.

[2:36:20 PM](#)

CO-CHAIR SADDLER, addressing Mr. Masterman, expressed his interest in the Geological Materials Center and its move to a new location. He asked about plans for the center's previous site on Fish Hatchery Road.

MR. MASTERMAN replied that an evaluation of the property, which belongs to DNR, is currently being done. Because there are issues with the property, the investigation must be completed before a decision can be made on whether to dispose of it. He said he will therefore get back to the committee in this regard.

[2:37:02 PM](#)

CO-CHAIR FEIGE inquired about plans for continuing the airborne geophysical program, given this program has identified significant areas for further exploration.

MR. MASTERMAN answered that his division is currently evaluating areas for which airborne geophysics will be flown in this current year. This evaluation is being done in conjunction with the division's Strategic and Critical Minerals Project to "kill two birds with one stone" with the area that is selected. After the area is determined, the process will begin for procuring the contract.

[2:38:14 PM](#)

CO-CHAIR FEIGE asked whether any new geothermal targets have been identified through the division's compilation process.

MR. MASTERMAN responded that the compilation was of existing information and the next step will be to collect new data.

[2:39:15 PM](#)

REPRESENTATIVE TARR requested elaboration about the division's collaboration with the University of Alaska, Fairbanks (UAF), and the U.S. Geological Survey (USGS) on the shale oil potential on the North Slope. She asked whether this collaboration is part of the "Shale Task Force" and whether the task force is still in existence and still meeting.

MR. MASTERMAN replied he is unaware of the Shale Task Force and does not know if it is [still in existence]. He said the division's collaboration involves looking at the shale horizons that are the source rocks for the oil accumulations on the North Slope. Several different stratigraphic horizons are of interest from a tight oil perspective. This summer the division will return with UAF and USGS to collect more samples for analysis of thermal maturity, hydrocarbon content, and parameters that affect the ability to extract oil from those rocks.

[2:40:14 PM](#)

CO-CHAIR FEIGE inquired whether the lack of funding to the USGS is affecting the ability of the state's Volcanology Section to track and maintain instruments up and down the Aleutian Islands. It is in the state's best interest, he commented, to maintain those instruments for information, given the air routes between

Alaska and Asia are heavily impacted every time there is an eruption.

MR. MASTERMAN answered that, to date, the division's funding for the Alaska Volcano Observatory has all been federal funding, which has been declining over time and which he does not see changing any time soon. So, that is impacting the network of monitoring sites on the volcanoes along the Alaska Peninsula in the Aleutians. Networks for two of the volcanoes have been lost completely and are not providing any information. Of the 29 remaining sites, 8 are considered severely impaired in that they will provide some after-the-fact information but will not allow detection seismicity that might pre-date an eruption. Most critical is Pavlof Volcano, which is near some communities on the Alaska Peninsula and is one of the most active volcanoes. In the last couple years, Pavlof's eruptions have caused local flights to be diverted to avoid the ash cloud. The funding the division gets from the federal government is inadequate to maintain all of those facilities and is affecting the issues of life, health, and safety.

[2:42:33 PM](#)

REPRESENTATIVE SEATON asked whether the division's North Slope shale investigations are in the existing lease sale or in other portions of the USGS-identified source rock.

MR. MASTERMAN responded he is not sure whether the division's activities are on the actual lease sale, so he will get back to the committee. Since the division's study is of the geology it evaluates the rocks where they are sticking out of the ground - the surface expression - and therefore the studies do not stop at lease sale boundaries. In further response, he confirmed the division works on the surface expression, not the lower level potential. The division does not have access to the most recent core that has been drilled on the North Slope.

[2:43:55 PM](#)

REPRESENTATIVE SEATON, addressing Ms. Menefee, requested further clarification about the land exchange the Trust wishes to do.

MS. MENEFEЕ explained that the land exchange that the Trust is pushing for with the Tongass National Forest is relative to the diminished available timber in the Trust portfolio. The Trust land office manages "buckets" of resources, and a diversity of buckets is a good idea to maximize portfolio revenue. The

timber bucket is running out of timber so the Trust is attempting to get timber back into that bucket to continue having a timber revenue source for those times when, say, the price of gold or other commodities in the market goes down. In further response, she said the fundamental premise of the exchange with the federal government is that it is an equal value exchange. The lands that have been presented on the federal side will be appraised for their value as will the Trust lands and then it will be a value-for-value exchange. Returning to the topic of who are the Trust beneficiaries, Ms. Menefee said that the most obvious beneficiaries are Alaskans with mental illness.

[2:46:54 PM](#)

CO-CHAIR SADDLER, addressing Mr. Goodrum, inquired how important [HB 77] is to improvement of the permitting backlog.

MR. GOODRUM replied that the division, and the department as a whole, has been approaching it as an "all of the above" approach. People, process, and legislative packages are all important as the division tries to modernize the system and make it more efficient and transparent for customers. A number of changes still need to come, but the division is aggressively pursuing those and working to make good and legally defensible decisions for the use of state land and water. The division is not there yet, but it is a process of continuous improvement.

CO-CHAIR SADDLER praised the progress with permitting that has been made so far.

[2:48:25 PM](#)

REPRESENTATIVE SEATON related that constituents have told him the charge for maricultural leases is \$450 per acre, while it is only \$3 per acre for grazing leases and oil and gas leases. Additionally, the capital intensiveness of mariculture expenditures is often higher than it is for grazing leases or agricultural leases. He urged that a balance be figured out in order to promote economic development in Alaska's coastal communities.

MR. GOODRUM concurred and said he looks forward to working with Representative Seaton and other people in this regard.

[2:49:56 PM](#)

CO-CHAIR FEIGE, regarding the statement that the permit backlog has been decreased 53.5 percent since the beginning of fiscal year 2012, asked what the number of backlogged permits is.

MR. GOODRUM answered that at the start of fiscal year 2012 the number was 2,658 authorizations in backlog. As of 12/31/13 the number was 1,237. He allowed it is still a sizeable number that needs to be addressed but said the division is continuing to work on reducing it.

[2:51:10 PM](#)

REPRESENTATIVE TARR, addressing Mr. Barron, observed from slide 12 that 90 leases were awarded in the North Slope, all within 7 weeks of the sale date. She recalled Mr. Barron saying that it used to take 8-12 months. She asked whether the expediency in processing those leases was an internal re-alignment, legislation, or both.

MR. BARRON responded that basically it was internal. The team asked itself what it is doing and why is it doing that. A critical aspect found out by the team is that it had a history of holding all the leases until all of them were ready to be adjudicated. It was decided not to do that anymore so that a "problem child" needing more research would no longer hold up the rest of the lease awards.

[2:52:07 PM](#)

REPRESENTATIVE SEATON noted that HB 129 was passed last session [effective date 5/22/13] and, as intended, has expedited things. However, he has received comments from people, especially in the Ninilchik area, that now things are happening very quickly. Rather than large swaths of state land, developers are taking five acres and putting up a rig so that gas drilling is right alongside the road or right next to people's properties. He inquired whether the division is handling any questions on those and whether there is public notice of those kinds of activities.

MR. BARRON replied that he thinks the aforementioned rigs are on private, federal, or Native land and therefore are not under his division's overview. No regulations have been propagated relative to HB 129 because the division is still in the public comment period, reviewing the comments, and checking how the comments are fitting in with what the division is proposing.

[2:53:55 PM](#)

CO-CHAIR SADDLER, referring to the incentives that the state offers for tax rates and jack-up drilling rigs in Cook Inlet, asked whether there is any new information that committee members should be aware of.

[2:54:13 PM](#)

MR. BARRON reported that activities in Cook Inlet were very robust during this past summer's drilling season, especially offshore activities. Furie Operating Alaska [successor-in-interest] to Escopeta Oil Company continued its delineation work in the Kitchen Lights Unit. Buccaneer and its primary working interest owner, BlueCrest, continued to do activities at the Cosmopolitan lease and is progressing its gas work offshore and oil work onshore. Furie is now in the construction phase of a small caisson platform, the first platform of this type in the Cook Inlet and the division has been focused on ensuring the correct engineering parameters for this environment. Kenai Loop is still an aggressive play by Buccaneer, which recently spud at West Eagle. Hilcorp continues to do very good work in oil production and escalated work in the gas phase. Soon after Hilcorp took over the properties of Marathon and Chevron and sat down with the utilities, the gas default issue was quickly solved and there are now secure contracts through 2018. Cook Inlet Energy continues its activities and is now progressing a purchase of some of the Armstrong properties in south Kenai.

[2:56:30 PM](#)

CO-CHAIR SADDLER related that the people of his district and Southcentral Alaska have concerns about the future supply of locally generated gas. He inquired about what the prospects might be after 2018 given the level of activity.

MR. BARRON characterized it as very positive. The production that will be coming from the Furie platform and the potential of the production coming from the Cosmopolitan structures will be coming on line arguably sometime between 2015 and 2017, which will dovetail nicely with any issues that might come up in the contractual basis in 2018.

[2:57:12 PM](#)

REPRESENTATIVE TARR, referring to slide 3, inquired how the memorandum of understanding between DNR and Resources Energy, Inc. (REI) fits into future projects.

MR. BARRON responded that if the question is how REI fits within the framework, he does not have a clear answer. If the question is how LNG, as a market, plays into the Cook Inlet, the answer is that it is a piece. It is a piece whether it is from supplying gas to Conoco for export or whether it is a piece playing into potential deliveries to the local markets and possibly trucking to Fairbanks, which has been going on for many years. The real issue with Cook Inlet gas has always been supply and demand. When there is more supply, the companies need to find more demand. If they do not find the demand then their opportunities to capitalize their money goes elsewhere. The more gas available, the increase market can be driven. Agrium has been talking to the division, ConocoPhillips is continuing to think about getting its license renewed, and there is also Donlin Creek as well as gas storage projects. All of these begin to play into a broader mix of supply and demand matrix.

[2:59:21 PM](#)

CO-CHAIR FEIGE, addressing Mr. Ellis, reported he has received complaints regarding the management of snowmachine access in the Hatcher Pass area. It seems that one class of user in that area is being favored while snowmachiners are being restricted. He said Mr. Ellis is welcome to get back to him on this issue.

MR. ELLIS replied that last year the division started a new management plan for access, and he will provide the co-chair with a detailed answer.

[3:00:23 PM](#)

CO-CHAIR FEIGE, moving to another issue, related that people are willing to volunteer at the Worthington Glacier observation site near Thompson Pass on the Richardson Highway, but they are being told that there are no funds to open the site. Given the volume of tourism along this corridor and Valdez, he said he would like to see what can be done to re-open the site. Co-Chair Feige continued, reporting that another issue is outhouses along the road that are open in the summer but closed and locked in the winter. He advocated that as long as the road next to an outhouse is plowed that outhouse should be open. In particular is the Paxson Road area now that the lodge there has closed.

MR. ELLIS answered that some waysides are under the Department of Transportation & Public Facilities (DOT&PF). A map of what

is available is currently being looked at to address this issue, whether it is DOT&PF or parks.

3:03:20 PM

CO-CHAIR SADDLER asked the progress being made on the Division of Parks & Outdoor Recreation's backlog of deferred maintenance.

MR. ELLIS responded that the division has approximately \$60 million worth of deferred maintenance within Alaska's state parks. Over the last three or four years the funding of around \$3 million a year toward deferred maintenance has kept this about even. The division evaluates the deferred maintenance and priorities twice a year. Unfortunately, it stays at about \$60 million with the \$3 million in annual funding.

3:04:26 PM

REPRESENTATIVE SEATON addressed Commissioner Balash regarding a resolution that was passed by the legislature supporting the extension of the ConocoPhillips export license and which included a clause related to rack availability of liquefied natural gas (LNG) for Alaskans. He inquired whether the Department of Natural Resources is making sure that no matter what goes forward for LNG there will be rack availability at commercially reasonable terms.

3:05:25 PM

COMMISSIONER BALASH replied that he will provide the committee with a copy of the letter he sent to ConocoPhillips asking the company to develop an application for additional export volumes from that facility. Included in that letter was mention of a truck rack.

3:05:48 PM

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 3:06 p.m.