

**ALASKA STATE LEGISLATURE  
HOUSE RESOURCES STANDING COMMITTEE**

March 18, 2015

1:02 p.m.

**MEMBERS PRESENT**

Representative Benjamin Nageak, Co-Chair  
Representative David Talerico, Co-Chair  
Representative Mike Hawker, Vice Chair  
Representative Bob Herron  
Representative Craig Johnson  
Representative Kurt Olson  
Representative Paul Seaton  
Representative Andy Josephson  
Representative Geran Tarr

**MEMBERS ABSENT**

All members present

**COMMITTEE CALENDAR**

CS FOR SENATE JOINT RESOLUTION NO. 13(RES)

Supporting oil and gas exploration and development on the outer continental shelf offshore of the state; opposing attempts to prohibit future oil and gas development in the Beaufort and the Chukchi Seas, including the Hanna Shoal area; and requesting that the federal Administration cease and desist from restrictions that adversely affect active or future leases in high petroleum potential areas in the Beaufort and Chukchi Seas, including the Hanna Shoal area.

- MOVED CSSJR 13(RES) OUT OF COMMITTEE

PRESENTATION(S): MIDDLE EARTH BY CALISTA CORPORATION AND DONLIN GOLD

- HEARD

HOUSE BILL NO. 139

"An Act allowing the Alaska Gasline Development Corporation, or a subsidiary of the corporation, to build, operate, and maintain a gas pipeline within the boundaries of the Susitna Flats State Game Refuge, the Minto Flats State Game Refuge, the Captain Cook State Recreation Area, the Nancy Lake State Recreation Area, the Willow Creek State Recreation Area, and the Denali State Park."

- BILL HEARING CANCELED

**PREVIOUS COMMITTEE ACTION**

BILL: SJR 13

SHORT TITLE: OCS OIL & GAS EXPLORATION/DEVELOPMENT

SPONSOR(S): SENATOR(S) COGHILL

02/09/15	(S)	READ THE FIRST TIME - REFERRALS
02/09/15	(S)	RES
02/20/15	(S)	RES AT 3:30 PM BUTROVICH 205
02/20/15	(S)	-- MEETING CANCELED --
02/23/15	(S)	RES WAIVED PUBLIC HEARING NOTICE, RULE 23
02/23/15	(S)	RES AT 3:30 PM BUTROVICH 205
02/23/15	(S)	Moved CSSJR 13(RES) Out of Committee
02/23/15	(S)	MINUTE(RES)
02/25/15	(S)	RES RPT CS 6DP NEW TITLE
02/25/15	(S)	DP: GIESSEL, COSTELLO, COGHILL, MICCICHE, STEDMAN, STOLTZE
03/02/15	(S)	TRANSMITTED TO (H)
03/02/15	(S)	VERSION: CSSJR 13(RES)
03/04/15	(H)	READ THE FIRST TIME - REFERRALS
03/04/15	(H)	RES
03/18/15	(H)	RES AT 1:00 PM BARNES 124

**WITNESS REGISTER**

CHAD HUTCHISON, Staff  
Senator John Coghill  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Introduced CSSJR 13(RES) on behalf of the sponsor, Senator Coghill.

KARA MORIARITY, President and CEO  
Alaska Oil and Gas Association (AOGA), Anchorage, Alaska  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of SJR 13.

MONICA JAMES, Executive Vice President/Chief Operating Officer  
Calista Corporation  
Anchorage Alaska

**POSITION STATEMENT:** Assisted in providing a PowerPoint presentation entitled "Transportation & Energy Infrastructure Village Cluster Consolidated Services Plan."

GEORGE OWLETUCK, MA, Government Relations Liaison  
Calista Corporation  
Anchorage, Alaska

**POSITION STATEMENT:** Assisted in providing a PowerPoint presentation entitled "Transportation & Energy Infrastructure Village Cluster Consolidated Services Plan."

JAMES FUEG, Project Study Manager  
Donlin Gold Project  
Barrick Gold Corporation  
No address provided

**POSITION STATEMENT:** Provided a PowerPoint presentation entitled "Donlin Gold Project Update".

CHARLIE COBB, Technical Engineer, Architect  
Dam Safety and Construction Unit  
Division of Mining, Land and Water  
Department of Natural Resources (DNR)  
Anchorage, Alaska

**POSITION STATEMENT:** Answered a question related to the Donlin Gold Project update.

#### **ACTION NARRATIVE**

[1:02:08 PM](#)

**CO-CHAIR BENJAMIN NAGEAK** called the House Resources Standing Committee meeting to order at 1:02 p.m. Representatives Seaton, Olson, Hawker, Tarr, Josephson, Talerico, and Nageak were present at the call to order. Representatives Herron and Johnson arrived as the meeting was in progress.

#### **SJR 13-OCS OIL & GAS EXPLORATION/DEVELOPMENT**

[1:02:54 PM](#)

CO-CHAIR NAGEAK announced that the first order of business is CS FOR SENATE JOINT RESOLUTION NO. 13(RES), Supporting oil and gas exploration and development on the outer continental shelf offshore of the state; opposing attempts to prohibit future oil and gas development in the Beaufort and the Chukchi Seas, including the Hanna Shoal area; and requesting that the federal Administration cease and desist from restrictions that adversely affect active or future leases in high petroleum potential areas

in the Beaufort and Chukchi Seas, including the Hanna Shoal area.

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CHAD HUTCHISON, Staff, Senator John Coghill, Alaska State Legislature, introduced CSSJR 13(RES) on behalf of the sponsor, Senator Coghill. He explained the resolution is in opposition to recent efforts by the federal executive branch to further restrict areas in the Chukchi and Beaufort seas as it relates to oil and gas development. The specific concern is the Hanna Shoal area in the Chukchi Sea. There are some active and adjacent leases where it is felt there will be a negative effect. There is concern about the ability to renew those active leases that are currently in the area and there is a concern that some of the mitigation costs associated with designating the Hanna Shoal as an environmentally sensitive area will further prohibit oil and gas development in that area.

MR. HUTCHISON began a PowerPoint presentation consisting of maps of the area being talked about. Drawing attention to slide 2, a map of the Beaufort Sea provided by the Bureau of Ocean Energy Management (BOEM), he said the different colored boxes denote the activity. Green indicates the historic leases that the oil companies have had in the past and blue indicates areas of high petroleum potential. Red indicates federally restricted areas, of which one is a subsistence area by Barrow and another a subsistence area by Kaktovik. These were previously restricted by the Bush Administration and every five years the restriction goes forward; the Obama Administration has continued the same restriction from 2012 to 2017. Yellow indicates active leases, none of which are in the restricted areas. Moving to slide 3, he noted that the leases shown in green around Barrow and Kaktovik are the historic leases and said the oil companies generally don't have an ongoing interest in those. The active leases shown in yellow are the ones about which the sponsor is most concerned. He said slides 4 and 5 provide a less cluttered view of what the proposed area looks like that the Obama Administration is moving forward with.

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MR. HUTCHISON brought attention to slide 6, stating the real concern is in the Chukchi Sea, which has a lot more activity. He said the blue color indicates the areas with high petroleum potential. There are more active leases as can be seen by there being a lot more areas depicted in yellow. The red line near

the coast on slide 6 is the 25-mile buffer zone. The only thing existing in that 25-mile area are historic leases that are no longer of interest to the producers. The pink and red areas near Barrow indicate the subsistence area for Barrow in which there are no active leases, so there is not really any resistance to that portion of it. The key area in the middle, the Hanna Shoal area, is indicated by the yellow circle. It has been studied the previous five years. Within that yellow circle are historic and active leases as well as a large area with high petroleum potential. Turning to slide 8 he explained that this area is important because Shell has three active leases that are adjacent to the Hanna Shoal area. Repsol has seven leases actually in the Hanna Shoal area itself and another five leases in the adjacent area that deal with similar petroleum prospects. The concern is that designating an area as [environmentally sensitive] will decrease the ability to renew those leases beyond 2022 and will increase the mitigation costs to the oil producers. Mr. Hutchison said slide 9 shows further clarification as to what some of the proposed area looks like. Slide 10 indicates the withdrawn areas [located within the draft proposed program area]: the 25-mile buffer area, the subsistence area around Barrow, and the Hanna Shoal area, which is the new component to all this.

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CO-CHAIR NAGEAK said his statement is, "Here we go again." He continued:

It really upsets me that people who live there, most of them ... have been working on this issue for years and years and years. All along the coast working with the whalers, working with the industry, working with everybody and going through the issue of reliance on our resources offshore and onshore. And here we go again. We have all this potential, but it really comes to us as Native people and all people who live along the coast where we rely on renewable resources. We also rely on nonrenewable resources for our tax base and for our livelihoods. A lot of people work in that area.... Without the oil industry we wouldn't be who we are today.

CO-CHAIR NAGEAK noted that just a few weeks ago the President began considering placing the 1002 Area [in the Arctic National Wildlife Refuge] near where he was born into a Wilderness. When oil was discovered it was found out that the United States of

America had to do land claims. While doing the land claims the federal government also created [Native] corporations. He continued:

What are corporations? Well, they're an instrument to make money. And why did the government give us corporations when we wanted tribes? Well, they gave us corporations and they ... locked up the areas where our resources are or our resources have been. Since time immemorial our people used those resources.... So, here we go again. What are we to do when the government of the United States in infinite wisdom gave us an instrument to say ... "go enrich yourself but in the meantime we'll lock up every piece of land, every piece of water ... and you're not going to have anything." That is exactly what it is right now. We didn't ask for corporations. But then for the past several years this has been happening after working diligently for years and years and years working with the industry, with the government, with everybody. And so what are we to do? There is one federal agency who's locking up everything ... for those of us who depend on the resource and ... another agency who's willing to work with us and finding ways to make sure that everything is protected in that area where they are going to open up or they have opened up areas for oil and gas exploration. So we have two agencies ... that have given us heartache and hope at the same time. So what are we to do? What [are] a whole lot of my families going to do in Kaktovik when they have a resource right underneath their feet but they can't use it?

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REPRESENTATIVE JOSEPHSON understood that in the announcement referred to by the resolution, the President also authorized some exploratory development in a very preliminary stage from Virginia down to the South Carolina coast. He said as far as he knows President Obama is the first to allow that. He asked whether the sponsor thinks that these restrictions in the Arctic are due to Shell's performance in 2012.

MR. HUTCHISON replied that his personal opinion is that from [the President's] perspective it might be related to that, as well as related to an overreaching philosophical decision as it relates to climate change and environmentally sensitive areas.

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CO-CHAIR NAGEAK opened public testimony.

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KARA MORIARITY, President and CEO, Alaska Oil and Gas Association (AOGA), Anchorage, Alaska, spoke in support of SJR 13. She said the Alaska Oil and Gas Association (AOGA) is the professional trade association for the oil and gas industry in Alaska and its members represent the majority of the producers, explorers, refiners, marketing, and transportation activities in the state. The association's members have been operating in the Arctic for more than 40 years. Oil and gas development is the backbone of Alaska's economy, and as the largest undeveloped energy basin in the U.S. the Arctic Outer Continental Shelf (OCS) is the next generation of energy security for the U.S. The Arctic OCS holds enormous oil and gas resources, estimated by the Department of Interior at approximately 27 billion barrels of oil and 132 trillion cubic feet of natural gas. In comparison, the Trans-Alaska Pipeline System (TAPS) has carried more than 17 billion barrels in just over 30 years. So, TAPS has played a critical link in the nation's energy security, transporting crude oil from Alaska's North Slope to West Coast markets. The OCS development in the Beaufort and Chukchi seas could feed into TAPS and maintain its viability for many more years to come. Oil and gas development in the Arctic OCS means more jobs for Alaskans. Development of the Chukchi and Beaufort seas is predicted to produce an annual average of 35,000 direct and indirect jobs representing a total payroll of over \$70 billion.

MS. MORIARITY noted that since 1971, 84 wells have been drilled in the Arctic OCS, all without incident. Industry has worked with communities to incorporate traditional knowledge in decision making, establish Conflict Avoidance Agreements, and impose seasonal drilling limitations. New regulations and further research has further ensured that development and environmental protection can co-exist. Three AOGA member companies hold leases within the withdrawn areas or directly adjacent to it. While the federal withdrawal language states that "nothing in this withdrawal affects the rights under existing leases in the withdrawn areas," there are still many unknowns for the operators, such as the ability to renew active leases or how the transport or building of infrastructure into a pipeline would be affected. The prior four lease sales

scheduled in the Beaufort and Chukchi seas were included in the Bureau of Ocean Energy Management's previous five-year leasing plan, but were withdrawn and subsequently not held. It is AOGA's fear that additional restrictions or delays will limit the opportunities for development in the Arctic OCS.

MS. MORIARITY said that as the sea ice stays open longer and other countries move forward with exploration and development in their waters and transportation through the ice-free Northwest Passage, Alaska's arctic seas could be left largely unattended. With little infrastructure in place communities along Alaska's north coast will be at the greatest risk with no ability to respond. Development of the Arctic OCS for exploration and development would bring that infrastructure to a very rural onshore area and the industry's continued presence would provide security and response capabilities should they be needed. She said AOGA supports SJR 13 to maintain all of the proposed leasing areas in the Beaufort and Chukchi seas and to resist additional restrictions on leasing in the final program.

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CO-CHAIR NAGEAK closed public testimony after ascertaining no one else wished to testify.

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REPRESENTATIVE TARR stated she has concerns about the resolution. Four of the five areas withdrawn were previously withdrawn so there has been a history under both Democratic and Republican administrations to exclude those areas from leasing. She understood from what she has read that the new area was picked for its biological importance, the subsistence needs of the people living nearby, and to ensure that the marine animals and endangered whales swimming through those areas are protected and will be there for future generations. She said she is cautious because the revenue issue has not yet been resolved so the state doesn't stand to gain much from this OCS development and she would like to see this matter resolved before moving forward.

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CO-CHAIR NAGEAK reiterated that this issue has been worked on for a very long time and studies have been done. The North Slope Borough has a diploma wildlife management and he was a drafter for many years of that diploma. He has been in offshore

and onshore issues for more than half his life. He has watched all of this happening. His first job right after high school in 1969 was in Prudhoe Bay, so he has been involved in oil issues for a very long time and in working with the industry and others. So it is upsetting when things like this happen. In the late 1980s and early 1990s a look was taken at how the offshore rigs would work and there was a rig right outside of Barrow. This rig was put in the area where the Chukchi and Beaufort seas meet, which is a very volatile area. In the summer he has been near it many times while hunting. He shared his experience of being right in front of Barrow while hunting and seeing all kinds of animals when suddenly the ice began coming in very fast. The community knows how that area is and how dangerous it is and this has been told to everybody who comes up to do work in that area. Discussions about what the administration wants to do will be continued in his community as well as in this committee

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REPRESENTATIVE JOSEPHSON stated he will not be objecting to the resolution.

CO-CHAIR TALERICO offered his appreciation of Co-Chair Nageak's input on this issue because it is rare for the committee to get actual firsthand knowledge and experience from someone who thoroughly knows the area.

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CO-CHAIR TALERICO moved to report CSSJR 13(RES) out of committee with individual recommendations and the accompanying [zero] fiscal note. There being no objection, CSSJR 13(RES) was reported from the House Resources Standing Committee.

The committee took an at-ease from 1:28 p.m. to 1:31 p.m.

**PRESENTATION(S):**  
**Middle Earth by Calista Corporation and Donlin Gold**

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CO-CHAIR NAGEAK announced that the next order of business are presentations by the Calista Corporation and the Donlin Gold Project.

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MONICA JAMES, Executive Vice President/Chief Operating Officer, Calista Corporation, introduced herself and her co-presenter, noting that she and Mr. Owletuck are Yup'ik Eskimo and are original Calista shareholders. She said she is originally from Alakanuk but grew up in Bethel and Mr. Owletuck is from the village of Marshall.

The committee took a brief at-ease.

MS. JAMES stated that the remote Calista region is accessible only by plane or boat and the region has the highest population of remote Alaskans. It is Alaska's most economically challenged region with 27 percent of all residents living below the federal poverty level. Many of the region's residents pay upwards of 58 percent of their annual income on energy-related costs. Despite these statistics, the people are resilient and culturally rich, having thrived in a challenging environment with little infrastructure and incorporating their traditional subsistence lifestyle. She said today's presentation will demonstrate that even in the face of these contemporary realities of lack of infrastructure and crippling energy costs, achievements have been made as a region with what the region has. That said, there are opportunities to continue increasing these triumphs through development of public facility infrastructure which will empower the ability to sustain the region's villages. Natural resources have been developed in the fishing industry with little to no infrastructure to support it. The region has natural resources for potential development and by partnering with the State of Alaska and the federal government, sound investments to address the energy crisis in the region will support the sustainability of people and will foster economic development for all Alaskans living in the Calista region who want employment opportunities to create industry to change socio-economic disadvantages.

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GEORGE OWLETUCK, MA, Government Relations Liaison, Calista Corporation, turned to slide 2 to explain that people rely on transportation and energy to achieve economic growth and sustainability. For example, history shows America's towns had many booms and busts. Towns can come and go if unsustainable and 2,700 disappeared over the last 100 years, mostly in the southwest U.S. Alaska has this history too. From the 1800s to the mid-1900s, Alaska packers ruled the salmon industry, providing 80 percent of territory tax revenue, but 37 cannery

towns are now gone. The baby state of Alaska has had 22 towns and villages disappear since the 1900s. Which towns in Alaska survived the best? Ketchikan has repeatedly survived many difficult times by using available resources and adapting. From salmon processing in the 1880s, mining until the 1950s, salmon and halibut cold storage in the 1930s, the forestry industry from the 1950s to the late 1990s, tourism in the 1980s, and seafood and mining recently, the stabilizing factors have been transportation and affordable energy. Hydropower in 1903 made Ketchikan affordable and competitive. Today Ketchikan has one of the highest state resident per capita incomes from transportation accessibility, stable and affordable energy, and natural resource extraction for jobs and economy. These are what people rely on in Southwest Alaska and the region's projects are related to transportation. There is a request for \$1.4 million for road design, engineering, and permits for the Pilcher Mountain Project at Marshall and a request for \$7.5 million for the Emmonak Dock Project that would contribute to expanded economic opportunity. Both are part of a 50 percent federal and state matched funding request as seed capital.

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MS. JAMES addressed slide 3, pointing out that as federal and state budgets tighten, communities with little infrastructure struggle. The Calista region lacks infrastructure, yet it is still being developed. At 57,000 square miles the Calista region is relative in size to the state of Oregon, but has little infrastructure and the highest cost of living. The region has 27,735 residents with 56 communities ranging in size from 200 to 6,100 and a growing young population. There are no interconnecting roads and no transmission grids, which prevents cost sharing of assets. Drawing attention to the map depicting all of the communities in the Calista region, she noted that nearly all of the communities have a school for kindergarten through twelfth grade, but there is only one true high school which is in Bethel. This tends to lead to low graduation rates, low scores, many dropouts. Often there is poor quality of education and high teacher turnover. Teachers don't have the ability to build home equity when they are teaching in the villages. The state graduation rate is 65 percent, but the Lower Yukon School District and the Lower Kuskokwim School District have graduation rates of 43.81 percent and 42.75 percent, respectively. The teacher turnover rate is high at 30 percent. Many of the 56 villages have an independent aging diesel generation system for village power. Most villages have a runway; for example, Marshall's runway is 100 feet wide and

3,200 feet long and can support small aircraft. The region has a couple of hub airports with runways in Aniak and Saint Mary's. Most of the 56 villages have health clinics, but there is limited access to state troopers and village public safety officers even though there is a high need for public safety.

MR. OWLETUCK continued addressing slide 3, noting the average cost of heating fuel in the Yukon-Kuskokwim Delta (Y-K Delta) is \$6.38 as compared to the on-road system average cost of \$3.41. Gasoline in the Y-K Delta is \$6.90 compared to \$3.42 in the on-road system. According to statistics from the Alaska Department of Fish & Game (ADF&G), 85 percent of households harvest subsistence resources and 70 percent of those households are sharing their catch, with a total estimate of over 954,000 pounds a year that is harvested to feed families and friends.

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MS. JAMES moved to slide 4, stating that a port is needed in the Lower [Yukon] Region. There is no regional port in the 700 miles between Bethel and Nome. There is an inter-portal linkage that connects economically with the Nenana and Fairbanks rail and highway with the port in Anchorage. For example, the village of Marshall shipped housing material from Seattle via Fairbanks using Nenana barges.

MR. OWLETUCK said the Native village of Marshall, which is a tribe, used money from the U.S. Bureau of Indian Affairs (BIA) housing improvement program to build 25 homes that were given to the elders. The most cost-efficient means to transport material from Tacoma WA is to go from Washington to Anchorage, use competitive trucking to go up the highway to Fairbanks, and hire local Nenana barges to ship the material down the Yukon River. So, there is an inter-modal linkage from Anchorage, Fairbanks, and the Lower Yukon River that can be capitalized upon for future projects.

MS. JAMES continued addressing slide 4, noting that, geographically, the Calista region is divided between the Yukon River, the Kuskokwim River, and coastal areas. Politically, the region is divided into the House of Representatives districts of Dillingham, Nome, and Bethel. Administratively, the Department of Transportation & Public Facilities divides the area into a northern region and a central region. The Fourth Judicial Court in Fairbanks oversees the region.

MR. OWLETUCK stated it is important to note that the Emmonak Lower Yukon port will provide infrastructure for potential offshore oil and gas development from Middle Earth and shipping.

MS. JAMES drew attention to Emmonak's location on the map as it relates to the future development of Arctic shipping, saying that the Emmonak dock can serve as an emergency response plan because the region must be prepared to address potential hazards with future shipping through the Arctic.

MR. OWLETUCK added that in regard to using the Emmonak port for potential offshore oil and gas development, a U.S. Coast Guard approved company in Argentina has been identified that could provide modular liquefied natural gas (LNG) plants at a fraction of the cost of an LNG plant. So, potentially, if there is oil and gas development off the Lower Yukon, the Emmonak port will have an infrastructure that can be capitalized upon to export gas to the region and up river to the Nenana/Fairbanks area.

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MS. JAMES brought attention to slide 5, explaining that the bright green on the map denotes the area and communities serviced by the port of Emmonak. The proposed dock in Emmonak would help make freight shipping more economical for these communities. The port in Emmonak would facilitate the safe and efficient offloading of cargo from barges. Currently, there are challenges of overcrowding, erosion, and flooding. If nothing is done, riverbank erosion and flooding will persist and pose a significant threat to the existing physical infrastructure of local maritime industry businesses. Supporting economic diversity and stability in the Emmonak dock results in maritime industry growth and expansion, which develops a more diverse economic base.

MR. OWLETUCK stated the total cost for the Emmonak Project is \$17.2 million and it is permitted and shovel ready. The City of Emmonak received \$500,000 in 2009 from a state grant for port design. In 2011 the U.S. Army Corps of Engineers approved the port design. In 2012 the City of Emmonak received a \$3 million fiscal year 2013 general obligation bond, which will deliver rock by October 2015 from Nome, Saint Mary's, and Stevens. The request for Phase 1 for the Emmonak Project is \$7.5 million of the remaining balance of \$14 million, which goes back to a 50/50 state match. Calista is going to Washington DC next week to propose the same message of having federal assistance to match

state assistance, which will also be part of the private investment in the region.

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MS. JAMES discussed slide 6, stating that an example of community sustainability is the Yukon Delta Fisheries Development Association. Despite the lack of a port facility in Emmonak the Yukon Delta Fisheries Development Association's maritime industry businesses have demonstrated sufficient growth. These businesses establish Emmonak as an economic center for the region, providing employment, income, and services to residents throughout the Lower Yukon.

MR. OWLETUCK said Yukon Delta Fisheries Development Association has several subsidiaries that are part of the Community Development Quota (CDQ) Program. Kwik'pak Fisheries from 2002 to 2013 bought 21 million pounds of salmon, infusing \$21 million in cash directly to 451 fishermen. In 2014 Kwik'pak Fisheries paid over \$50 million in aggregate wages to region works. Kwik'pak's youth employment program provides summer employment to youth aged 14-17 and has paid over \$1 million to youth in the last four years. Since 1999 Yukon Marine Manufacturing has manufactured, built, and sold 243 20-24 foot skiffs. Yukon Marine Manufacturing employs local welders to build and repair boats for area residents. Yukon River Towing built a bunkhouse in Emmonak that sleeps 30 people using siding from logs delivered by local residents and milled at a local sawmill. At its local sawmill Yukon River Towing manufactures lumber out of the logs brought down the Yukon River to build bunkhouses, homes, and has developed a log and stick-frame home kit for Lower Yukon residents. Yukon River Towing is using a program offered by the U.S. Department of Housing and Urban Development that offers low interest mortgage loans for home buyers.

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MS. JAMES moved to slide 7 and stated that the Marshall dock and quarry road would complement community sustainability. Currently, the Lower Yukon Region must purchase material from Nome at exorbitant cost. Constructing a quarry in Marshall would result in reducing public cost by \$20-\$24 million for airport projects identified by the Department of Transportation & Public Facilities (DOT&PF). Savings are also anticipated for future regional infrastructure with local high-grade gravel and armour rock at a significantly lower cost. This quarry at Pilcher Mountain has a 25-year life for producing material. The

Native village of Marshall identifies Indian Reservation Road Funds as a 10 percent federal match. The location of the quarry also reduces hazards of offloading freight and heavy vehicle materials on the unimproved, eroding shoreline landing. For public safety, this plan separates heavy equipment from the local foot traffic.

MR. OWLETUCK related that in a letter to Calista the Northern Region of DOT&PF identified several projects for which it wants to use Pilcher Mountain rock. Those projects are rehabilitation of 15 miles of the Saint Mary's and Mountain Village road at an estimated cost of \$13 million, relocation of the Pilot Station airport and construction of a new airport and new 3-mile road at an estimated cost of \$10-\$20 million, improvements to the Saint Mary's runway at an estimated cost of \$10-\$20 million, and an extension of the runway at Nunam Iqua (Sheldon's Point) at an estimated cost of \$2.5-\$5 million. The high cost of barging rock between Nome and the Lower Yukon projects makes the rock at Pilcher Mountain of high interest to DOT&PF. He drew attention to the topographic map on slide 7 depicting the proposed 3-mile road between the proposed dock site and Pilcher Mountain. He pointed out that the white spot in the picture of Pilcher Mountain is an existing quarry. He further noted that the topographical map depicts an existing road from Marshall to the top of Pilcher Mountain where there is cell tower.

MS. JAMES said another important point about the location of this dock is its location inside a natural river eddy. Over time and annual breakup, this location would protect the dock.

MS. JAMES turned to slide 8, saying there is a consensus for village cluster consolidated services to develop a more robust energy transportation infrastructure for Western Alaska that consolidates public services and infrastructure support for community sustainability. The Calista region is a good model: it has many small villages that lack basic infrastructure, so doing a cluster approach would work in this region.

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MR. OWLETUCK shared an anecdote, explaining that many of the region's people are graduates of boarding schools. He is the graduate of a Jesuit boarding school at Saint Mary's Mission and his older sister is a graduate of four years of boarding school. Last summer his 80-year-old father said something was lost when boarding schools were lost. When a high school was put in every village the quality of education was lost that boarding schools

used to provide. He related that his nephew and nieces are in high school in a boarding school at a Galena. The young people are voting with their feet by going to boarding school because they recognize the quality of education that a boarding school potentially can provide. Part of the solution to the high cost of living in the Calista region is to build infrastructure that would serve those communities located in a cluster. For example, a 15-mile road has connected Saint Mary's and Mountain Village since the early 1980s, and a 6,000-foot runway at Saint Mary's used to land Mark Air jets in the early 1980s. Rather than building a high school in every little village at a cost of \$30 million each, a regional high school could be built to serve the cluster communities. Roads could be built to connect those cluster villages and to bus kids to the high schools; for example, the Anchorage School District buses kids from Girdwood, which is 30 miles away. Regional high schools, middle schools, or elementary schools would allow focus on a higher quality of education with specialists. Statistics show that 6 out of 10 of the region's high school students do not graduate and a regional school is a potential solution. This is also part of the proposal to address high energy costs. There could be sub-regional, gas-powered power plants that serve the surrounding communities with high voltage/high wattage interties.

MS. JAMES highlighted the successful program of the Chininik Wind Group, which established four wind turbines in the village cluster comprised of Tuntutuliak, Kongiganak, Kwigilingok, and Kipnuk. Each of the four communities has wind turbines that are connected and for each community there has been a 30 percent displacement of the fuel costs of the power plants and a 30 percent displacement of fuel costs in the homes that are participating in this project.

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MR. OWLETUCK brought attention to slide 9 to discuss the state and local benefits of village cluster consolidated services. State benefits would include reducing duplication, achieving economies of scale to lower costs, coordinating state agency master plans, sharing of resources, centralizing and bettering of schools, and leveraging limited state capital and operating funds. Local benefits would include linked communities, more reliable power, cheaper energy and transportation costs, higher quality services, improved education for rural students, and improved emergency services and resources.

MS. JAMES addressed the map on page 9, pointing out a well-traveled trail to Toksook Bay, as well as a trail to Tununak. She noted that these trails are used in winter and could become a road system for this cluster of communities.

[1:57:38 PM](#)

MS. JAMES moved to slide 10, stating that the Donlin Creek Mine affords access to energy. A 315-mile-long pipeline, privately financed at \$1 billion, is being proposed to transport natural gas from the Beluga natural gas pipeline system 30 miles west of Anchorage to the Donlin Creek Mine. Completing the gas pipeline project provides a future opportunity for a federal, state, public, and private partnership to expand a natural gas powered electric intertie network into the region. This has potential to expand the natural gas pipeline into the region, thus reducing reliance on subsidized electricity from the power cost equalization. She said Calista is optimistic to have the Donlin Creek Mine move forward. The infrastructure resulting from this development could potentially aid in reducing the energy crisis the region currently faces. The Marshall dock and quarry would provide reduced public costs for the rock material to the Lower Yukon projects. She asked for the committee's support of the request of \$1.34 million for the road design, engineering, and permits. The Emmonak dock has possibilities of future expansion for business development activities which potentially could include support of offshore oil and gas and Arctic development if the \$7.5 million request can be funded collaboratively with the State of Alaska and the federal government.

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REPRESENTATIVE TARR understood the \$1.4 million would complete the [Pilcher Mountain] Project. She calculated that roughly \$6.2 million is left for funding the [Emmonak Dock] Project and surmised this funding would be coming from the federal government.

MR. OWLETUCK replied correct, the original project was about \$14.2 [million] and that was from several years ago. The engineers have come back to the City of Emmonak which has come to Calista Corporation and added some inflation for the cost of material, services, and energy. These are therefore the latest numbers. There is a balance of about \$13.8 million. Phase 1 in its entirety will cost \$7.5 million, which leaves about \$6.9 million as the remaining balance.

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REPRESENTATIVE HERRON commented that he has watched Ms. James and Mr. Owletuck grow up over and become leaders in the Calista organization. He said what they have demonstrated to the committee is that he represents a district of 32 communities that have to stand alone as compared to Anchorage that has multiple legislative members representing one common community. He offered his appreciation to the Calista Corporation for showing the challenges that he faces as a representative in Western Alaska.

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REPRESENTATIVE TARR observed that the median income is about \$46,000 and the income of the 451 fishermen is about \$46,000 per fisherman. She asked where this median income comes from.

MR. OWLETUCK responded Emmonak is unique in that it is a CDQ community, so it has a fleet of offshore trawlers that is able to underwrite the cost of purchasing commercial salmon from the commercial fishermen in the Lower Yukon. Therefore the wages paid to the region's residents and the amount paid for ex-vessel value of the salmon harvested commercially is an anomaly, the rest of the region is mired in poverty because of a lack of resource development due to lack of access to cheap transportation in turn due to lack of access or ability to produce cheap energy. The percentages are U.S. Census data as an aggregate average of over 25,000 people, but the numbers for Emmonak and that region are skewed due to access to the trawl industry and they skew the average higher than it would otherwise be.

The committee took an at-ease from 2:03 p.m. to 2:05 p.m.

2:05:27 PM

CO-CHAIR NAGEAK directed the committee's attention to the next presentation by the Donlin Gold Project.

JAMES FUEG, Project Study Manager, Donlin Gold Project, Barrick Gold Corporation, provided a PowerPoint presentation entitled "Donlin Gold Project Update". Turning to slide 2 he explained that Donlin Gold LLC is the operating company for the Donlin Gold Project. Donlin Gold LLC is jointly owned by Barrick Gold Corporation, the world's largest gold mining corporation, and NOVAGOLD RESOURCES INC. Donlin Gold operates in partnership

with Calista Corporation with whom Donlin Gold has a mining lease agreement. The deposit itself is located on lands owned by Calista and The Kuskokwim Corporation (TKC). The lands were selected several decades ago for their mineral potential. A separate surface use agreement with TKC allows for the use of the lands. Together with its partners Donlin Gold is committed to advice in the Donlin Project in coordination with the stakeholders in the region in an environmentally responsible manner to bring benefits to everyone in the partnership.

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MR. FUEG displayed a map on slide 3 and pointed out that the deposit is located about 270 miles west of Anchorage and 10 miles north of the closest community to the project, Crooked Creek on the Kuskokwim River. Seen on the map is that there is a complete lack of infrastructure between Anchorage and the Railbelt and the project site. Should the project move ahead, Donlin will propose to build and operate all the infrastructure needed to support the project through construction and operations.

MR. FUEG reviewed the site layout shown on slide 4, explaining it shows what the project might look like after about 25 years of operation. It would be a large open pit mine with a waste rock storage facility, and a tailings storage facility. The mill would be located on the ridge between the waste rock storage and the tailings storage facilities. The deposit is large with some 33 million ounces in the reserve, placing it in the top fraction of undeveloped gold projects around the world. That reserve would support a mine life of more than 27 years with an annual production of more than a million ounces. If developed it would be one of the few mines around the world that actually produces more than a million ounces annually. The open pit operation would move more than 400,000 tons of rock a day and the mill itself would process some 60,000 tons of rock per day. Power would be generated onsite using a gas fired power plant with a pipeline from Cook Inlet to supply the gas.

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MR. FUEG described the tailings facility (slide 5), saying it would be a state-of-the-art engineered tailings facility. It would be a rock filled dam similar to the one at the Fort Knox mine outside of Fairbanks. The rock filled dam abutment would be constructed using the downstream construction method, which is the most robust and sound method of construction similar to

that used for water retention dams around the world. The overburden would be excavated down to the bedrock before placing the rock fill and the dam wall. This would also be the first tailings facility built in Alaska with a complete synthetic liner to cover the full basin of the tailings storage facility, thereby protecting the groundwater and other resources underneath the tailings storage facility. The liner would be a low-density polyethylene similar to that used in industrial waste facilities throughout the country. Over the years of developing and engineering the project, numerous subsurface investigations have been conducted in the tailings dam footprint to better understand the geotechnical conditions. This includes some 41 core drill holes. Many were drilled with chilled fluids so when the core is brought back to the surface the ice and clay layers within those cores remains intact to provide an understanding of the geotechnical conditions. Some 37 auger holes were drilled, about 60 test pits were dug, 18 seismic surveys were conducted, and 4 resistivity lines were run. As the design advances through detailed design towards construction, additional onsite investigations and drilling will be conducted to fully identify the subsurface conditions that have the potential to impact the design and construction.

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MR. FUEG discussed the map on slide 6, explaining that since there is no existing infrastructure in the area, Donlin proposes to build all the infrastructure needed to construct and operate the project. This would include a 30-mile road from a port site to be constructed on the Kuskokwim River near the mouth of Jungjuk Creek, a 5,000 foot runway, a 600 man permanent camp to support the project during operations, and a 2,500 man temporary camp to support the project during construction. Together with its partners, Donlin Gold would also propose to build a port site specific for the project at the community of Bethel on the downriver side of the Kuskokwim. Additionally, there would be the 315-mile-long gas pipeline that Donlin Gold is proposing to build from Cook Inlet.

MR. FUEG addressed the logistic and supply chain as depicted on slide 7, noting that during operations the project would require some 100,000 tons annually of consumables, including mining consumables such as truck tires, as well as 30-40 million gallons of fuel annually to power the mobile fleet associated with the mine. The anticipation is to supply these consumables and fuel directly from the West Coast. Consumables would come via line-hold barge out of the West Coast, most likely Seattle

or Tacoma, into Bethel. Fuel would either be transported by tanker to Dutch Harbor and then by a line-hold barge into Bethel, or possibly direct from the West Coast into Bethel on line-hold barges. In Bethel the fuel and consumables would be transferred to shallow-draft river barges for the 185 mile trip up the river to the port site at Jungjuk and then onto trucks for transport to the mine site. There would be a tank farm and storage areas large enough to hold all the supplies needed to operate through the winter season when the river is frozen.

MR. FUEG provided further details regarding the proposed natural gas pipeline (slide 8). The 315-mile-long pipeline would be a buried, 14-inch steel pipeline carrying gas from the west side of Cook Inlet near Beluga to the mine site. The pipeline would use a single compressor station located near Beluga and its current configuration would be able to move about 70 million cubic feet of gas per day. At this point it is anticipated needing between 30 and 35 million cubic feet of gas a day to power the mine site. The average running load at the mine site would be around 150 megawatts, an amount similar to what the community of Fairbanks uses. The pipeline would be constructed using temporary infrastructure that would be reclaimed after development. It would be an open access pipeline, most likely a contract carrier, which is a requirement of the right-of-way leases from both the state and federal governments whose lands would be crossed to build the pipeline. While this is a lot smaller than some of the pipeline projects currently being considered in the state, it is by itself a challenging and expensive project.

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MR. FUEG turned to slide 9, reporting that the permitting process for the Donlin Gold Mine began in July 2012 when the initial federal permit applications were filed with the U.S. Army Corps of Engineers (Corps). The Corps is the lead agency for the environmental impact statement (EIS) for the Donlin Project. The project currently being permitted includes the 315-mile-long gas pipeline, the mine site facilities and operations, and the infrastructure previously described. The schedule shown on slide 9 is a schedule put out by the Corps and represents the current view of when the EIS would be completed, which right now looks like a Record of Decision (ROD) coming sometime in 2017. A draft EIS will go out for public comment later this year. He thanked the Department of Natural Resources (DNR), the Department of Environmental Conservation (DEC), and other Alaska state agencies for their role in the permitting

process and their efforts to keep the permitting on track and comprehensive.

MR. FUEG reviewed the EIS public scoping meetings (slide 10) that have been held. He said Donlin has been in the region for 20 years and through that time Donlin has been known for its high level of stakeholder engagement and consultation. Donlin has been supportive of that process continuing through the EIS. He explained that slide 10 shows the process that the Corps used in doing the scoping for the Donlin EIS. The Corps conducted 13 scoping meetings looking for local input and testimony at various locations around the project site, one in Anchorage and in twelve communities located in Western Alaska. Donlin facilitated transportation from all the surrounding spoke communities into the central hubs where the meetings were conducted, thereby allowing residents of every community to participate in the scoping process and give testimony as they desired. Donlin believes this is one of the most comprehensive scoping processes ever conducted for an EIS.

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MR. FUEG moved to slide 11 to further discuss the community engagement. With its long history of partnership and engagement with the communities, Donlin considers itself as part of the family of Southwestern Alaska and continues to remain engaged with the communities as the project moves through permitting. Donlin maintains staffed year-round offices in Bethel and Aniak and conducts 25-30 village meetings per year. Donlin has fluent Yup'ik speakers on staff and the villages can choose to have presentations provided in either English or Yup'ik. Materials such as brochures are also provided in Yup'ik and Donlin staff has developed a Yup'ik glossary of mining terms to help people understand the technology being proposed for use at the site. Donlin has a long reputation for local hire on the project. Since field activities are limited while moving through permitting, folks from Donlin's workforce development have developed a school outreach and a lot of time is now being spent in outreach to middle and high school students trying to help them prepare for the jobs that would become available if the project moves ahead. Donlin has an active scholarship program that supports students in the region both for technical and university level education. Donlin's community investment program focuses on cultural preservation, environmental protection, community wellness, and education. Donlin looks forward to continuing its partnership with the communities of the region as the project moves forward.

MR. FUEG concluded by reviewing the economic benefits listed on slide 12. During construction the peak workforce would be around 3,000 people, resulting in a direct payroll of some \$375 million per year over the 3-4 years of construction. During the more than 27 years of operations the average workforce would be around 900 people with a direct annual payroll of \$100 million. Indirect and induced payroll would be about \$60 million a year, which Donlin believes could have many positive impacts for the region. In addition to wages, significant royalties would be going to partners Calista and TKC, with many of these being further distributed throughout the entire state under the 7(i) and 7(j) provisions of the Alaska Native Claims Settlement Act (ANCSA). Additionally, the project would pay mining license taxes and corporate income taxes to the State of Alaska.

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REPRESENTATIVE JOHNSON requested Mr. Fueg to explain the difference between the tailings dam being proposed by the Donlin Gold Project and the dam that recently failed in Canada [Mount Polley dam, British Columbia].

MR. FUEG qualified he is not a geotechnical engineer, but replied that there are substantial differences. The Donlin dam would be 100 percent rock filled and he understands that the [Mount Polley] dam was not. The [Mount Polley] dam was not constructed using the downstream construction method and instead utilized a process whereby the tailings actually become part of the dam wall, which is not what Donlin is proposing to do. Most importantly, Donlin has spent almost two decades collecting climate data in the area and has accessed previous decades' worth of climate data from government stations around the region, allowing the production of various accurate models of the climatic conditions, rainfall, and water flows expected through the project area. Using that information Donlin has built in more than redundant capacity to deal with water inflows into the tailings facility and into the project area. Donlin is also looking at state-of-the-art treatment for water discharge from the site. Doing that avoids what was one of the major causes of the problems in British Columbia where the dam was actually overfilled with water that it wasn't designed to retain and Donlin is not proposing to do that.

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CHARLIE COBB, Technical Engineer, Architect, Dam Safety and Construction Unit, Division of Mining, Land and Water, Department of Natural Resources (DNR), responded further to Representative Johnson's question, noting there are some pretty significant differences between the Donlin Project and the Mount Polley Project other than the design of the dam itself. One of the main problems at Mount Polley was the failure of the engineers to understand the foundation conditions in that dam. There was an unconsolidated deposit of glacier silts and sands in the foundation that actually led to the failure of that dam and there were some construction issues in that the dam was not completed per the design. The issue is not so much the difference between the dams as it is the failure of the engineers to understand the site conditions of the Mount Polley Project. Given Donlin's commitment to the research necessary to understand the project setting, DNR is pretty confident there will not be a repeat of something similar to Mount Polley.

REPRESENTATIVE JOHNSON stated he knew the answer when he asked the question, but said he wanted the difference to be pointed out because of campaigns against the Donlin Project using Mount Polley as an example.

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REPRESENTATIVE HERRON disclosed that he and Mr. Fueg have known each other for many years and that the dam would be located in his election district. He inquired what some of the possibilities are in the region for the excess generating capacity of the plant that will be powered by gas.

MR. FUEG answered there wouldn't so much be excess generating capacity with the plant, but there would be excess capacity within the pipeline. It would be an open access pipeline and, as such, would be available to any third party, whether private or government, to tap into that pipeline for gas to power generation.

REPRESENTATIVE HERRON noted that the Donlin Gold Project has been flying under the radar compared to the [proposed Pebble Creek] mine. He requested Mr. Fueg to address the difference between the two mines.

MR. FUEG replied he hesitates to comment on the differences because he is not an expert on the other mine. However, he thinks one of the big factors that have led to Donlin's level of advancement in permitting is its long history of cooperation and

engagement with its partners and individual communities and individual people. He said he doesn't think there is any person in the villages in the Calista region or up on the Yukon who hasn't either worked at Donlin or has a family member or knows somebody who has worked at Donlin. That long partner history during the 20 years of development is the reason Donlin has been able to move forward.

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REPRESENTATIVE HAWKER offered his wishes for the best of success with the Donlin Project, saying it is important to the future of the region and the future of the state. He inquired whether the mine project has a committed source of gas for its pipeline.

MR. FUEG responded that at this point Donlin does not know. The project is currently advancing through permitting. The partners have committed to take the project through permitting but have not yet made a commitment to construction of the project. As is common in large projects like this, the partners are waiting to see how the permitting ends up before making final decisions on commitment and that would be the point at which the project would start looking for hard commitments on gas.

REPRESENTATIVE HAWKER noted that the actual mining activities are heavily regulated and involve a great deal with both state and federal permitting processes. He asked whether the proposed natural gas pipeline entails any public regulatory agency or public regulatory oversight or permitting separate from Donlin's activities involved in actually permitting the resource development.

MR. FUEG answered the pipeline itself, the mine, and all the associated infrastructure are covered under a single permitting process as a single EIS. There will be a single wetlands permit for the entire project. The various components of the project will have various individual permits from the regulated perspective. It will be an open access pipeline, a contract carrier, and as such will be regulated by the state.

REPRESENTATIVE HAWKER understood the EIS schedule presented by Mr. Fueg [slide 9] is one EIS for the entire project, including resource development and the gas pipeline development.

MR. FUEG replied correct.

REPRESENTATIVE HAWKER further understood that Mr. Fueg believes the regulatory authority over this particular pipeline would be state regulatory authority through the Regulatory Commission of Alaska (RCA).

MR. FUEG responded correct.

[2:28:34 PM](#)

REPRESENTATIVE TARR commented that the distinction between the Donlin Project's tailings pond and the [Pebble Mine] is that the [Pebble Mine's] proposed tailings pond is designed to be like Mount Polley, the one that failed. A presentation last summer reviewed the three different tailings pond options, which provided a higher level of confidence in the safety surrounding the Donlin Project.

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REPRESENTATIVE SEATON recalled the state having to take over the Illinois Creek Mine due to its bankruptcy and pollution problems and there was not enough bonding but enough gold was left and recovered to pay the costs. Given the Donlin Project is not on state land, he inquired whether there are still bonding requirements in case of possible events.

MR. FUEG answered that the state bonding requirements on private land are the same as they are on state land. Before any construction can begin Donlin must have approval of both its reclamation and closure plan and the bond or bonds associated with that closure plan. Donlin is looking at a bonding instrument both for the immediate physical closure activities, which would be in the order of hundreds of millions of dollars, and a further instrument for covering any long-term costs associated with the closure, such as water treatment. So, it will be fully bonded. The state process requires that that closure plan and the associated bond be updated on a five-year basis as the project moves through operations and construction.

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REPRESENTATIVE JOSEPHSON asked whether NOVAGOLD and Barrick Gold have other projects in Alaska and what their big projects have been in Canada.

MR. FUEG replied NOVAGOLD is a junior mining company and does not own and operate any other projects, although it is involved

in the development of another project in British Columbia called Galore Creek, which is currently in the pre-feasibility study of engineering. Barrick Gold is the world's largest gold mining corporation. The company was recently slimmed down from owning something like 27 mines around the world to about 20. Barrick Gold owns and operates many of the large mines in Nevada and most of Barrick Gold's core assets are located in Nevada. He believed Barrick Gold operates one, or possibly two, mines in Canada.

REPRESENTATIVE JOSEPHSON inquired whether one of the mines on the Seward Peninsula near Nome was owned by Nova Copper or NOVAGOLD and further inquired whether there was any connection between the two.

MR. FUEG responded it was NOVAGOLD, but said that operation has been closed down. It was permitted and operated for a brief while and then closed down a few years back. He believed the property was sold, but said he doesn't know whether the state has yet released the bond.

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#### **ADJOURNMENT**

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 2:33 p.m.