

ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE

March 18, 2015

3:30 p.m.

MEMBERS PRESENT

Senator Cathy Giessel, Chair
Senator Mia Costello, Vice Chair
Senator John Coghill
Senator Peter Micciche
Senator Bert Stedman
Senator Bill Stoltze
Senator Bill Wielechowski

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

CONFIRMATION HEARING

Commissioner, Department of Natural Resources
Dr. Mark Myers

- CONFIRMATION ADVANCED

HOUSE JOINT RESOLUTION NO. 6

Supporting the introduction and enactment of federal legislation acknowledging that the federal government is financially responsible under the Alaska Native Claims Settlement Act for the remediation of contaminated land subject to conveyance under the Act; urging the United States Department of the Interior to implement the six recommendations to identify and clean up the Alaska Native Claims Settlement Act lands in its 1998 report to the United States Congress; and urging the President of the United States and the United States Congress to remediate and make free from pollutants lands in the state conveyed under the Alaska Native Claims Settlement Act.

- MOVED SCS HJR 6(RES) OUT OF COMMITTEE

SENATE BILL NO. 57

"An Act relating to the development of state emission standards in accordance with the federal Clean Air Act."

- HEARD & HELD

REVIOUS COMMITTEE ACTION

BILL: HJR 6

SHORT TITLE: FEDERAL CONTAMINATION OF ANCSA LANDS

SPONSOR(s): REPRESENTATIVE(s) MILLETT

01/21/15	(H)	READ THE FIRST TIME - REFERRALS
01/21/15	(H)	RES
02/27/15	(H)	RES AT 1:00 PM BARNES 124
02/27/15	(H)	Moved HJR 6 Out of Committee
02/27/15	(H)	MINUTE(RES)
03/02/15	(H)	RES RPT 7DP
03/02/15	(H)	DP: JOSEPHSON, HERRON, TARR, OLSON, HAWKER, SEATON, TALERICO
03/09/15	(S)	RES AT 3:30 PM BUTROVICH 205
03/09/15	(S)	Scheduled but Not Heard
03/11/15	(H)	TRANSMITTED TO (S)
03/11/15	(H)	VERSION: HJR 6
03/13/15	(S)	READ THE FIRST TIME - REFERRALS
03/13/15	(S)	RES
03/18/15	(S)	RES AT 3:30 PM BUTROVICH 205

BILL: SB 57

SHORT TITLE: CLEAN AIR ACT PLAN

SPONSOR(s): SENATOR(s) GIESSEL

02/20/15	(S)	READ THE FIRST TIME - REFERRALS
02/20/15	(S)	NRG, RES
03/17/15	(S)	NRG AT 1:00 PM BUTROVICH 205
03/17/15	(S)	Moved CSSB 57(NRG) Out of Committee
03/17/15	(S)	MINUTE(NRG)
03/18/15	(S)	RES AT 3:30 PM BUTROVICH 205

WITNESS REGISTER

JEFF TURNER

Staff to Representative Charisse Millett

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Commented on HJR 6 for the sponsor.

NICHOLA RUEDY, Executive Director

Alaska Native Village Corporation Association (ANVCA)

Anchorage, Alaska

POSITION STATEMENT: Supported HJR 6.

JULIANNA SHANE, Director
Tanadgusix Corporation
St. Paul Island, Alaska

POSITION STATEMENT: Supported HJR 6.

JIM ARNESEN
Corporate, Lands, and Regulatory Manager
Eklutna Inc.
Eagle River, Alaska

POSITION STATEMENT: Supported HJR 6.

KRISTIN RYAN, Director
Division of Spill Prevention and Response (SPAR)
Department of Environmental Conservation (DEC)
Anchorage, Alaska

POSITION STATEMENT: Commented on HJR 6.

VIVIAN STIVER, staff to Senator Giessel
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Commented on SB 57 for the sponsor.

NORMAN ROKEBERG, Commissioner
Regulatory Commission of Alaska (RCA)
Anchorage, Alaska

POSITION STATEMENT: Answered questions on SB 57.

MARK MYERS, Commissioner-designee
Department of Natural Resources (DNR)
Anchorage, Alaska

POSITION STATEMENT: Commissioner-designee for the Department of Natural Resources (DNR).

ACTION NARRATIVE

[3:30:21 PM](#)

CHAIR CATHY GIESSEL called the Senate Resources Standing Committee meeting to order at 3:30 p.m. Present at the call to order were Senators Stedman, Costello, Micciche, Wielechowski, Coghill, and Chair Giessel.

HJR 6-FEDERAL CONTAMINATION OF ANCSA LANDS

[3:31:00 PM](#)

CHAIR GIESSEL announced HJR 6 to be up for consideration.

SENATOR STOLTZE joined the committee.

JEFF TURNER, staff to Representative Charisse Millett, sponsor of HJR 6, said this is essentially the same resolution passed by the legislature last year. When the Alaska Native Claims Settlement Act (ANCSA) was passed in 1971, some lands were transferred to the newly formed Native corporations that were found to be contaminated, which prevent the traditional use of many of those lands, which goes against the intent and spirit of the law.

In 1998, the Department of Interior prepared a report with six recommendations ranging from creating a forum made up of the entities involved in this issue to identifying all of the contaminated sites, to giving the landowners assurances that liability for the contamination would not be transferred to them. Seventeen years later none of those recommendations have been acted on.

[3:32:14 PM](#)

He said that Representative Millett had spoken to Bureau of Land Management (BLM) officials, but made little progress. To keep up the pressure on the federal government, she sponsored this legislation again to hopefully get results similar to what was accomplished with the travesty wells.

[3:33:01 PM](#)

At ease

[3:33:29 PM](#)

SENATOR COSTELLO moved Amendment 1.

29-LS0269\A.1
Nauman
3/14/15

AMENDMENT 1

OFFERED IN THE SENATE

Page 3, line 11:

Delete "."

Insert "; and be it"

Page 3, following line 11:

Insert new material to read:

"**FURTHER RESOLVED** that the Alaska State Legislature urges the United States federal government to reimburse the medical expenses of residents who

have health conditions and complications as a result of living on contaminated and polluted lands in the state conveyed under the Alaska Native Claims Settlement Act."

SENATOR STOLTZE objected for discussion purposes.

SENATOR COSTELLO explained that this amendment adds a further resolve section on page 3, following line 11, urging the federal government to reimburse medical expenses to those who have health conditions as a result of living on contaminated lands the state conveyed under the Alaska Native Claims Settlement Act (ANCSA).

SENATOR STOLTZE removed his objection.

SENATOR MICCICHE objected for discussion purposes. He was concerned that the undetermined amount of liability might complicate the resolution as opposed to just a statement that we expect the lands to be cleaned up.

MR. TURNER said the sponsor supported the amendment. Patrick Marshall, a constituent of Senator Stedman's, brought this amendment forward.

SENATOR MICCICHE removed his objection.

CHAIR GIESSEL, finding no further objections, announced that Amendment 1 was adopted.

[3:36:03 PM](#)

NICHOLA RUEDY, Executive Director, Alaska Native Village Corporation Association (ANVCA), Anchorage, Alaska, supported HJR 6. She related some history of the contamination. When the federal government conveyed millions of acres of land to Alaska Native Corporations, it included lands with various types of hazardous waste and toxic materials that posed significant health risk to humans, animals, and environment, such as arsenic, asbestos, PCBs, mining waste, chemicals, petroleum and oil solvents, mercury, and toxic metals.

During the 1990s, the Alaska Native community raised concerns about the contaminated lands the Department of Interior conveyed to them, and, in 1995, Congress directed the Secretary of Interior to prepare a report about the extent of their contamination. In December 1998, the department submitted a report entitled "Hazardous Substance Contamination of Alaska

Native Claims Settlement Act Lands in Alaska." In it they acknowledged conveying approximately 650 contaminated sites and identified numerous hazardous wastes including known carcinogens. Recognizing the injustice, the department recommended fully identifying the sites along with clean up recommendations. But extensive research indicates that no efforts have been made to implement any of them.

[3:38:18 PM](#)

JULIANNA SHANE, Director, Tanadgusix Corporation, St. Paul Island, Alaska, supported HJR 6. She said she grew up around so much petroleum contaminated soils that she didn't know any different. From 1986-2000, cleanup work was done by the National Oceanic and Atmospheric Administration (NOAA) for the Pribiloff Islands under the Fur Seal Act. Since the mid-90s the cleanup has cost \$76 million of both islands. Now, they are in the final stages of trying to receive the property back from the federal government.

She wanted them to know that this work can be done internally. Corporate shareholders have now been trained to do this cleanup work and one of the companies even does cleanup nationwide.

MS. SHANE said she is from a family of 11 and her husband was from a family of 15. They watched as four of his sisters, one from brain cancer, one from stomach cancer, one from kidney cancer, passed and she recently lost her husband from small cell lung cancer. Their shareholders have one of the highest rates of cancer. All the other villages need to be cleaned, not just the Pribiloffs.

[3:41:29 PM](#)

JIM ARNESEN, Corporate, Lands, and Regulatory Manager, Eklutna Inc., Eagle River, Alaska, supported HJR 6. He said Eklutna had received a number of contaminated lands through ANCSA; one of the more prominent areas is in the heart of the Native Village of Eklutna, itself. It is the former site for the U.S. Army Camp Mohawk, the BIA Eklutna Boarding School, and the Railroad quarry. Over the last few years they village received grant funds for investigation and remediation activities. Currently, the Corps of Engineers is out there working to attempt further remediation of petroleum product contamination. Presently, they are waiting for results of testing from the Corps.

Other contaminated sites include the original Matanuska town site that had been used by a former polluter from Anchorage who is now deceased. He had placed a large number of contaminated

materials of various kinds and quantities all around the properties and some have migrated.

They also received an old homestead that they spent substantial funds of their own to cleanup. The operation consisted mostly of surface debris from Donnelly who operated an illegal junk yard on the property. This property is impaired and will probably require more remediation in the future.

MR. ARNESEN said they have property near the Birchwood Recreation and Shooting Park where trespass shooters have contaminated property with lead and they are in the process of determining the levels of contamination which will guide the remediation effort.

He said the municipality had a project to replace the old Eklutna Bridge that led to the discovery of lead paint contamination below the bridge that will require remediation. More recently, potential contamination was discovered and believed to be emanating from the old Peters Creek landfill. Eklutna has received other properties that have been used by various governmental units and as they go to develop these properties they run into contamination, buried pits, and all kinds of toxins. The cost of remediating these properties has been a financial burden and has at time prevented, stopped or delayed a project.

MR. ARNESEN said Eklutna believes the contamination on Native lands caused by former governmental units or others has not been addressed satisfactorily and that those impacted lands are a burden and a hurdle for economic development opportunities. The federal government has the financial and moral obligation to remediate the contaminated sites and reimburse funds spent by Native corporations on cleaning them up. He also agreed with Amendment 1.

[3:46:17 PM](#)

SENATOR STOLTZE said he appreciated what Eklutna is doing as a good steward of the resources.

SENATOR COSTELLO asked if the Department of Environmental Conservation (DEC) has a list of the 650 contaminated sites and monitors them in some capacity.

KRISTIN RYAN, Director, Division of Spill Prevention and Response (SPAR), Department of Environmental Conservation (DEC), answered yes; they have a database of all contaminated sites in

the state that were caused by the federal government. In fact, the Department of Interior (DOI) relies on it as the best source of information on contaminated sites in the state.

SENATOR COSTELLO asked if there had ever been a conversation about taking the feds to court over this.

MS. RYAN answered that the department has several MOUs with multiple federal agencies that are working on cleaning up contamination that they own or inherited and she prefers to make that kind of progress as opposed to taking legal action, and some sites are already under active remediation work. The department is continuing to work with the federal government on the ones they have cleanup standards disagreements with.

SENATOR COSTELLO asked if she supported the amendment.

MS. RYAN said the few claims of medical concern that she knows of were difficult to prove. It's very difficult to make the direction connection of old contamination to a potential health issue.

SENATOR STOLTZE asked if the state is spending SPAR funds on some of these federally contaminated sites.

MS. RYAN answered that the SOA spends some money to get the federal government to honor its obligations under federal and state law. The state gets reimbursed for the majority of those expenses through the MOUs, but at times it takes years to reach settlement. Approximately \$8 million in federal money that comes into the contaminated site program is spent to cover oversight of cleanup of the sites.

CHAIR GIESSEL, finding no further comments, closed public testimony.

MR. TURNER thanked the committee for their attention on this issue and said the sponsor is convinced this resolution will have equally similar results as her resolution for cleanup of the travesty wells.

SENATOR MICCICHE commented that at some point they will have to start putting teeth into these requests.

SENATOR COSTELLO moved to report HJR 6, version 29-LS0269\A, as amended from committee with individual recommendations and

attached zero fiscal note. There were no objections and SCS HJR 6(RES) moved from the Senate Resources Standing Committee.

[3:54:16 PM](#)

At ease

SB 57-CLEAN AIR ACT PLAN

[3:55:35 PM](#)

CHAIR GIESSEL announced SB 57 to be up for consideration and invited her staff to explain the bill. [CSSB 57(NRG), 29-LS0523\G was before the committee.]

[3:55:54 PM](#)

VIVIAN STIVER, staff to Senator Giessel, sponsor of SB 57, Alaska State Legislature, Juneau, Alaska, explained that the Environmental Protection Agency (EPA) released a proposed rule regulating emissions for power generators; it has two elements: statewide emissions reduction targets and guidelines for development and implementation plans for those reductions.

She explained that the EPA has set Alaska's CO₂ emission reduction target at 26 percent by 2030. SB 57 requires the Department of Environmental Conservation (DEC) to seek a waiver or a similar exemption from the proposed rule known as the Existing Source Performance Standards Under Section 111(d) of the Clean Air Act (CAA). SB 57 provides guidance to DEC regarding the development of a state implementation plan should this rule become effective. The plan will not result in increased retail or service rates in any way that are disproportionate to households of low or moderate income, less reliable electrical service, resource inadequacy or transmission constraints, impairment of investment in existing electrical generating capacity, impairment of the competitive position of manufacturers or other public or private sectors of the state's economy, a decrease in employment in the state or a decrease in state revenues.

The bill also requires the DEC to prepare a report to the legislature that analyzes the effects on the power generating sector of the affordability of electricity from diverse sources of generation, the type and amount of electricity generating capacity in the state that is likely to be eliminated or switched to another fuel, investment in electricity generating capacity and other infrastructure, the amount of investment necessary to offset retirements of electric generating capacity and maintain generation reserve margins, potential risk to

electric reliability and resource adequacy risk and transmission constraints, and the amount by which retail electricity prices in the state are forecasted to increase under the plan.

MS. STIVER said the bill also provides, should that plan be put in place, consideration of the disproportionate amount of the increase in the cost of electricity and the effects of the employment and other economic factors on consumers.

SENATOR COSTELLO asked if any other states that are concerned about the ability to comply with the reduction targets are asking for a waiver prior to the rule being adopted.

MS. STIVER answered that 15 other states had passed resolutions in regard to the EPA's proposed rule.

SENATOR COSTELLO asked what the difference is between a waiver and an exemption.

MS. STIVER replied the waiver may be on portions of the rule that don't apply in the state and an exemption would take the state completely out of the rule.

SENATOR STOLTZE said the bill has a \$100,000 fiscal note and asked if there is existing money.

SENATOR STEDMAN said this is a big issue that is being forced on states nationwide and more information is needed about strategy to counteract it.

[4:05:01 PM](#)

CHAIR GIESSEL said committee backup had numerous articles and letters from Senate leadership, the Miners Association, and various state organizations who are all aware of this that will point out how this has been getting addressed.

SENATOR STEDMAN said he is aware, but the public, the end consumer, needs to become aware, because they are the ones who will have to pay for it.

[4:07:02 PM](#)

SENATOR WIELECHOWSKI said if the idea is to get an Alaska specific plan, which he applauds, this bill seems to undercut it because the majority of the language is taken verbatim from model legislation financed by the Koch brothers.

MS. STIVER answered that she looked at numerous prepared documents specifically containing electrical generation business language. This is a great tool that outlines why the state is not capable of meeting this rule and she hopes DEC will use it in negotiations with the federal government.

4:08:20 PM

NORMAN ROKEBERG, Commissioner, Regulatory Commission of Alaska (RCA), Anchorage, Alaska, said he was available to answer questions on SB 57. He commented that initially the comments provided by the SOA were the result of a multi-agency task force put together by the governor last year in response to the promulgation of the EPA rule. The Alaska Energy Association (AEA), the Port Authority, the RCA, DEC and the governor's office worked together with two dozen people and devoted several months meeting to file comments with the EPA by December 1, 2014.

Those comments indicated that the rule mandated a 26 percent reduction in greenhouse gases by 2030. Analysis done by the task force indicated that Alaska would not be able to achieve that particular goal. The governor chose to move forward by enjoining the Murray Coal Case that questioned the legality and constitutionality of the rule and says that Alaska should be exempt.

To his knowledge, Alaska is the only state requesting an exemption, Mr. Rokeberg said. Some 15 states do not want to participate in filing a State Implementation Plan (STIP). Alaska makes an extraordinarily good case for an exemption, because it is not connected with a North American grid whereas almost all other portions of the Lower 48 are. Electric utilities can buy bulk electrical services through bidding processes throughout the country and are able to obtain power with renewable resources and have engaged in major energy efficiency programs.

MR. ROKERBERG said it was essential to work with the congressional delegation in doing everything possible to convince the EPA to exempt Alaska. Part of the problem with the plan is the only areas affected under the proposed rule are the five generating units in the Railbelt area; the rest of the state is not included. Therefore, references in the bill talking about electrical consumers and economic development in the state are a little bit off mark.

He said the SOA had invested billions of dollars in energy generation, efficiencies and renewable in the last decade, and

the problem is that EPA gives Alaska no credit for the money it has spent before, because its energy investments have been in thermal and folks being able to keep their homes warm.

[4:14:43 PM](#)

Because the focus is on the Railbelt, the very large amounts of money invested in renewables, particularly wind and hydro, Alaska does not receive any credit in terms of computing its greenhouse gas amount. In their comments they requested that the EPA give Alaska credit for the amount of investment and the renewables it has undertaken statewide so far.

CHAIR GIESSEL asked if he would be available on Friday and he said he would be. She then said she would hold SB 57.

Confirmation Hearing: Department of Natural Resources
Commissioner-designee Mark Myers

[4:17:31 PM](#)

CHAIR GIESSEL announced the confirmation hearing for DNR Commissioner-designee, Mark Meyers, and invited him to tell the committee why he wants to serve in this position.

MARK MYERS, Commissioner-designee, Department of Natural Resources (DNR), Anchorage, Alaska, said he grew up in Wisconsin and came to Alaska as part of a University of Wisconsin geologic field expedition in 1974 and fell in love with it. He went to work for ARCO because it had operations in Alaska, but they sent him to Louisiana instead, where he worked on the Gulf of Mexico shelf onshore and offshore oil and gas industry and met his wife. ARCO moved him to Alaska in 1983 where he spent 8 years as an exploration geologist and looked a lot at frontier basins offshore, Nome, the Beaufort Sea, and onshore on the North Slope, and did a lot of geologic field work. Later in that same period came the crash in oil prices and he moved into development at Kuparuk and experienced the other big side of development. He got to see the upside swing in terms of drilling development wells, working seismic, working infield drilling patterns, etc.

In 1987, he got his PhD at UAF, because he didn't want to leave the state, and then the state offered him a job as a petroleum geologist. While he was working on his PhD he was a student intern at DNR. In 1990, he became the Division of Oil and Gas petroleum geologist for about eight years and learned how the state manages its oil and gas resources. He became interested in 3D seismic and went to work again for ARCO. He spent several

years drilling exploration wells and had two discoveries. It was great fun to see hard geological concepts become oil fields.

In 2001, he became Director of the Division of Oil and Gas, really appreciating the role that petroleum exploration and development plays in Alaska and seeing how the revenue from it benefited the people of the state. Ultimately working on behalf of the people of the State of Alaska is what made him excited. Commissioner Myers said he spent five years as director and left in November 2005; a week or two later he was asked by the White House to become Director of the U.S. Geological Survey (USGS), the pinnacle job in the world for a geologist. USGS is the largest geological organization with 9,000 people in 400 offices doing integrated science that included water, satellites, and biology.

COMMISSIONER MYERS said with the change in administration he came back to Alaska where he was recruited to become the AGIA coordinator for a few years. Then the University approached him about becoming Vice Chancellor of research at UAF and he did that for four years. Research had about \$123 million of mostly federal research funding. He worked with a lot of different federal agencies, and increasingly in areas with the Arctic Council. While with USGS he also did a lot of work with international committees and leadership positions in the federal agencies. He was asked along with Senator Stedman to be on the National Petroleum Counsel and will report to the legislature on April 7, a major report on offshore oil and gas development for the Secretary of Energy.

He is on the Methane Hydrate Advisory Committee for the federal government trying to make sure the well can be drilled on the North Slope to test out potential hydrates, an important test. He and Bob Swenson are the only people from Alaska, but there are a lot of folks from the Gulf Coast. The recommendation is to get the well drilled. In 2003, he went to Congress at Senator Stevens' request to get that act renewed, so Alaska basically wrote the proposal that become the law for the Hydrate Act. In about two weeks, they will talk to an assistant Secretary of Energy about further support for the program.

COMMISSIONER MYERS said he is on the U.S. Delegation for the Arctic Council for Scientific Cooperation Task Force, which is negotiating a treaty with the eight Arctic nations. All of these opportunities are important to Alaska in raising awareness in Congress.

[4:28:50 PM](#)

He was happily doing his university job when Governor Walker called and asked him to consider being commissioner and he is honored to be considered by this committee. He considers DNR the economic engine of the state.

COMMISSIONER MYERS said he discussed four principals with the Governor that he wanted to put into DNR: the first was stewardship. DNR has stewardship of over 160 million acres of land and submerged lands or 200 acres per Alaskan. They provide for the people of Alaska, but they don't own it. They recognize it is for current and future Alaskans. Secondly, transparency: because what they do is a public trust. There are often conflicts on land uses and difficult decisions, so transparency and public involvement is critical. Integrity is the third principal and the fourth is to do science-based management.

[4:31:14 PM](#)

SENATOR STOLTZE asked what his concerns are.

COMMISSIONER MYERS responded that at USGS with 9,000 people, you learn you are never the smartest person in the room. It engenders a sense of humility and the willingness to listen to staff and the people you can trust in your organization. One needs to also listen down into the organization. Almost all of his directors were directors previously; he looked at the quality of individuals and the continuity necessary to run the organization. In the areas that the department doesn't have strength, he has very strong directors; they are all technical experts or practioners in their fields.

COMMISSIONER MYERS said if you don't learn to listen and get input on fisheries, the environment and on what really matters on water, local use of lands and Native lands, you will fail. He learned to do that successfully and to work and build trust with the leadership of the other organizations. He will work hard to fill the gaps with science. Then, he will get out into the field to get to know employees.

CHAIR GIESSEL said HB 4 and SB 138 were passed as structures to get to a gas pipeline and asked his thoughts on those two bills.

[4:35:51 PM](#)

COMMISSIONER MYERS answered that he has orders from the governor to move the gasline project forward. Deputy Commissioner Rutherford is spending 90 percent of her time leading that effort. They have a strong consultant and some employees but he

intends to add to that. He has a solid budget with which to do studies and refresh data sets. He has a real commitment to making it work. This is his third round of gas lines and he believes the companies are serious this time, but they have a lot to negotiate. It is an immense task, but he saw some solid progress after reviewing the draft report on in-state demand done by AGDC. However, there are issues like governance, gas balancing, managing risk and royalty in kind, and a marketing strategy that have to be aligned. The other part is making sure the state can manage its share of the project. Building that capacity means getting the right people on the team in place and getting ready for the FEED decision. He is very comfortable with the team.

CHAIR GIESSEL said he as commissioner plays a pivotal role and asked if he had signed a confidentiality agreement.

COMMISSIONER MYERS replied that he had not yet signed it, but he will need to sign one to get the data before making the RIK decision. He has asked the governor for that authority and he believes that the governor will be willing to give it to him at the appropriate time. A major part of the upstream piece is how the gas offtake is managed in the fields.

CHAIR GIESSEL asked if he thought SB 21 played a role in bringing small independents to the North Slope.

[4:40:58 PM](#)

COMMISSIONER MYERS answered that it has been a factor. The ACES credits brought them - Armstrong and Repsol - here, which strengthened the exploration risk piece of it. SB 21 helps the development part of it more. It depends on where they are in the cycle. There were some concerns about the amount of money spent on the exploration side and he has been a strong proponent of that, because he knows it is the riskiest part of the business. Will it pay dividends? That success is evidenced by Repsol and Armstrong drilling 10 wells and production wells being drilled at Mustang> A unit takes 10 years to develop and credits are important.

The questions he had before as an individual, not a commissioner, were concerns that not all oil costs the same to produce and that the infield drilling credits were very generous. He didn't think in many cases that the economic payoff would be quick enough. Along with affordability of the credits, it's a balance.

[4:42:45 PM](#)

The advantages of having progressivity is being able to take more risk on giving out more credits because more of the upside is preserved. It also affects the companies investment profile negatively, another balancing piece. In looking at the state's oil tax structure you have to look at balancing credits with revenue coming in from the development side. It's very complicated, but clearly more credits help with more development but also give the state a lot less return at lower oil prices. The progressivity piece of it allows rolling the dice a little bit at higher prices. The state is wise to look at incentivizing those activities that won't happen without them versus those that probably would have happened anyway.

[4:43:48 PM](#)

SENATOR STOLTZE said that the Kenai River fishery is managed by the DNR's Division of Parks and asked him to look at balancing that sensitivity as there are efforts to skew that balance with Board of Fisheries representation.

SENATOR STEDMAN advocated for the survival of the forest program within DNR, because they are down to only one medium-sized saw mill. Because of the tough budgets coming in the next few years, they need to be protective of all natural resource extraction industries, so the state can get through the economic downturn.

[4:45:14 PM](#)

COMMISSIONER MYERS said that economic diversification is a really critical element for Alaska. There will come a time when the state will need another economic base besides oil, particularly with price volatility. Timber is a really important resource. It doesn't get captured in direct revenue flow back to the state, but in terms of jobs and successful local economies. He is very concerned when DNR prioritizes its budget about the cuts to forestry, particularly in Southeast.

COMMISSIONER MYERS added also that if the state is going to argue it needs a greater say over its resource management, it has to have credible technicians that can work the problems. The Tongass loses credibility in cutting out regional foresters. The same with agriculture, which is more about food stability for communities. The more that can be grown in Alaska locally the more stable citizens are and with that he is really concerned that we don't eat the seed corn with the budget cuts.

SENATOR COSTELLO asked what factors will affect success for the AKLNG project and which ones are avoidable.

COMMISSIONER MYERS said the largest factor for the project is that it's very expensive, long term and all parties have to be aligned enough to move it to FEED and then to FID. There are a lot of issues, some of which the state has a major role in and others that are business decisions that have to be made between parties. The state is a business partner in this, but the other three also have to align; then there is short term and long term alignment, which is being negotiated now. Governance is the hard thing for all parties. Another piece is the market. In the end there has to be a niche for Alaska gas and the project has to be competitive for that market. Because these projects are decades in nature, the markets are very volatile. Something dramatic could happen two years from now in the international energy market that affects the cost of LNG to Japan. The best modelers on the company side and the state side don't believe that, but it is a possibility. The project has to be competitive with the other worldwide projects, but he believes it can be.

A state oil company structure has to be really unified internally; that means alignment between AGDC, DNR, DOR, and ultimately he thinks a single structure is necessary that goes from upstream all the way to marketing, because that is how the companies are set up. You can't have one part of it trying to make a profit on the other part.

[4:51:58 PM](#)

Certainty and signals from state government are also important, but the critical part as negotiations continue is that they seem to be high-quality and the parties are aligned. Another near big immediate one is gas balancing. A state pipeline and the companies' pipeline all have to be filled or the economics of the project will ruin the party that can't deliver its gas to the market and can't use the full capacity of all three pieces: the GTP, the pipeline, and the liquefaction plant. It has to be an incredibly efficient structure and to do that an upstream gas balancing agreement is necessary, particularly for ConocoPhillips and the state, because production is a derivative product. He believes they are involved in a good faith effort and that this is a serious discussion that will get us there. If the state can't get there, then it can't take the RIK risk. If the state is guaranteeing 20 years capacity, we have to deliver the gas. If not, we will have to revert back to an RIV structure, which could work, but the producers would have to agree with it. Everyone recognizes the problem and he thinks we can get there.

SENATOR COSTELLO said obviously the governor trusts him, but asked if he listens to him.

COMMISSIONER MYERS answered that in his discussion with the governor before he took the job, he had several conditions; the first was he could get Marty Rutherford back and that was granted; the second condition was he needed time to finish his university commitments and take a couple weeks' vacation, which was granted; the third condition was that he had to live in Anchorage, because that is where the bulk of the business happens as much as he would love to live in Juneau; the fourth condition was that he would have access to the governor and he agreed to that, as well. He has honored that and they are having great dialogues on the gasline. The governor's orders are very clear; work this as hard as you can and make it work.

Does he want a backup plan? Absolutely! That has been clear, too. No one is sure this is going to work. The market conditions and lack of internal alignment could stop the project. He hoped it wouldn't, but having a backup plan is not unreasonable. The AGDC structure gave him that, but it is significantly years behind the AKLNG project - for a couple of significant reasons: the gas treatment plant on the North Slope isn't designed for LNG; secondly, the pipeline ended at Big Lake, and thirdly, there is no liquefaction plant. It truly is a backup.

SENATOR COGHILL thanked him for taking the job and said he will get to be the steward of probably one of the biggest land pieces in America, and access to that land patchwork is a big deal. First, in his view with the Native corporations and then dealing with the feds, because of the roadless rule, which is arbitrary to now the waters of the United State, another arbitrary issue, which could push federal control of lands all the way to the timberline. He asked how he would work in a condition like that. Is it agreements among Alaskans? Do we have to go to Congress? Will his federal connections help?

COMMISSIONER MYERS replied that the department will have to work diligently on multiple fronts. With the governor's cuts, which were really painful, he had to cut a fair amount of capacity for RS-2477 and navigability, but he hopes to get some of it back; some ongoing lawsuits are important. He has already met with the regional fish and wildlife director to talk about agreements and disagreements on the ANW-R wilderness decision. He also had a successful meeting with the deputy secretary of Interior and the secretary's chief of staff. He also met with the BLM director and said he wants to bundle the state's issues together. He

wants to be able to select from the full selection of lands. The feds want to use lesser survey standards and he said that is okay where it's appropriate, but also look at the Native allotments, particularly the ones in the Tanana Valley and Minto Flats. He would like to see that problem solving accelerated. Particularly with the deputy secretary, Mike Connor, and the chief of staff the response was very positive. He did make a lot of good connections when he worked with USGS and the Department of Interior was glad to have him in this job now and they are starting out from a position of trust.

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He said the state needs to understand the feds' positions, but the state needs them to understand some things, too. The agencies' missions are very specific and the state has a much more general land mission with some exceptions. He looks at economic development, sustainability and wildlife management. Their agencies, except for BLM, are limited to a number of goals. The problem is that Alaska is checker-boarded and therefore, there are access issues. Logical rulings are made within the context of wildlife management, but they will impede development. Even though development is allowed on refuges, it's not a core mission within the Fish and Wildlife Service. They are taking a very conservative role; it's partly tradition and partly administration and the director's viewpoint. But ultimately, he said, one can win with good science; show how the birds are being disturbed and ask for an objective scientific report on it. It's in their culture to respect that. Ask them to be consistent between agencies.

SENATOR MICCICHE asked his plan for a comprehensive approach to developing the state's resources.

COMMISSIONER MYERS said that is a really important issue and that the \$135 billion is way understated. The Institute of Social and Economic Research at the University of Alaska (ISER) doesn't believe in exploration (and he does) and the technological changes are astounding. Folks like Repsol have proved him right. If we can get to shale oil there is a lot more. There are 5 billion barrels of technically recoverable heavy oil under current technologies. The state has an immense endowment and he was confident that the state is badly underexplored, but that is a wonderful problem to have. If the state is clever, it can bring enough capital into the basins to increase production.

However, the other resources are really important, too, and the challenge is that a strategic budget is needed that doesn't strip them out. He was concerned that short term budget cuts will damage DNR's ability and believes that "we can't cut our way of this." His biggest concern is keeping capacity and not eating our seed corn in that structure.

He said we can't build roads to everywhere to develop our lands, but we can get power in many cases. We can build micro-grids and investments can be made in longer term energy sources like tidal. The state has tremendous opportunities and an incredible resource base, but the R&D investment piece is missing. That is where the University can be tapped. He was in charge of University research and saw the capacity there for getting more investment capital for high tech industry, particularly for things like micro-gridding and energy production. Rural Alaska has such high costs that it can afford to use lesser technologies that wouldn't work in the Lower 48, because they are grided.

COMMISSIONER MYERS said it takes capital, because the payoff in those first projects is a poor MPV decision for a company to make. It's a 10 or 15 year investment. So, the subsidies for energy conservation are huge in the net to the economy. Alaska's demand for energy is flat, which is remarkable given the population growth and everything else going on. Looking at it strategically: technology, investment, and then growing those industries strategically that aren't going to bring in huge profits early or they would have been already - in forestry, agriculture and fisheries enhancement. Given the budget scenario those are the first things that are going to be cut.

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CHAIR GIESSEL thanked him and said in accordance with AS 39.05.080, the Resources Committee reviewed the following and recommends the appointment be forwarded to a joint session for consideration: Commissioner, Department of Natural Resources, Mark Myers. This does not reflect an intent by any of the members to vote for or against the confirmation of the individuals during any further sessions.

CHAIR GIESSEL adjourned the Senate Resources Committee meeting at 5:08 p.m.