

**01/24/14
OVERVIEW:
DEPARTMENT
OF NATURAL
RESOURCES**

<TARGET><BILL></BILL><SUBJECT>01-24-14 OVERVIEW
DEPARTMENT OF NATURAL
RESOURCES</SUBJECT><COMM>HRES28</COMM></TARGET>

Linda Hay

From: Tempel, Esther (DNR) <esther.tempel@alaska.gov>
Sent: Thursday, January 23, 2014 12:32 PM
To: Trevor Fulton
Cc: Linda Hay
Subject: DNR House Resources Overview
Attachments: Balash_DNR Update_House Resources_1-24-14.pdf

Hi Trevor,

Please find the attached PDF for our presentation tomorrow for House Resources. Presenting will be:

- Joe Balash, Commissioner
- Franci Havemeister, Division of Agriculture Director
- Chris Maisch, Division of Forestry Director
- Steve Masterman, Division of Geological and Geophysical Surveys Acting Director
- Marcie Menefee, Mental Health Trust Land Office Executive Director
- Brent Goodrum, Division of Mining, Land & Water Director
- Bill Barron, Division of Oil & Gas Director
- Ben Ellis, Division of Parks & Outdoor Recreation Director
- Tom Crafford, Office of Project Management and Permitting Director
- Alison Iversen, Acting State Pipeline Coordinator
- Jeanmarie Davis, Support Services Division Director

Deputy Commissioners Ed Fogels and Bob Swenson will be in the audience available for questions but at this time are not slated to speak.

Thanks,

Esther Cha Tempel

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State of ALASKA

Department of Natural Resources



House Resources Committee

DNR Overview

January 24, 2014

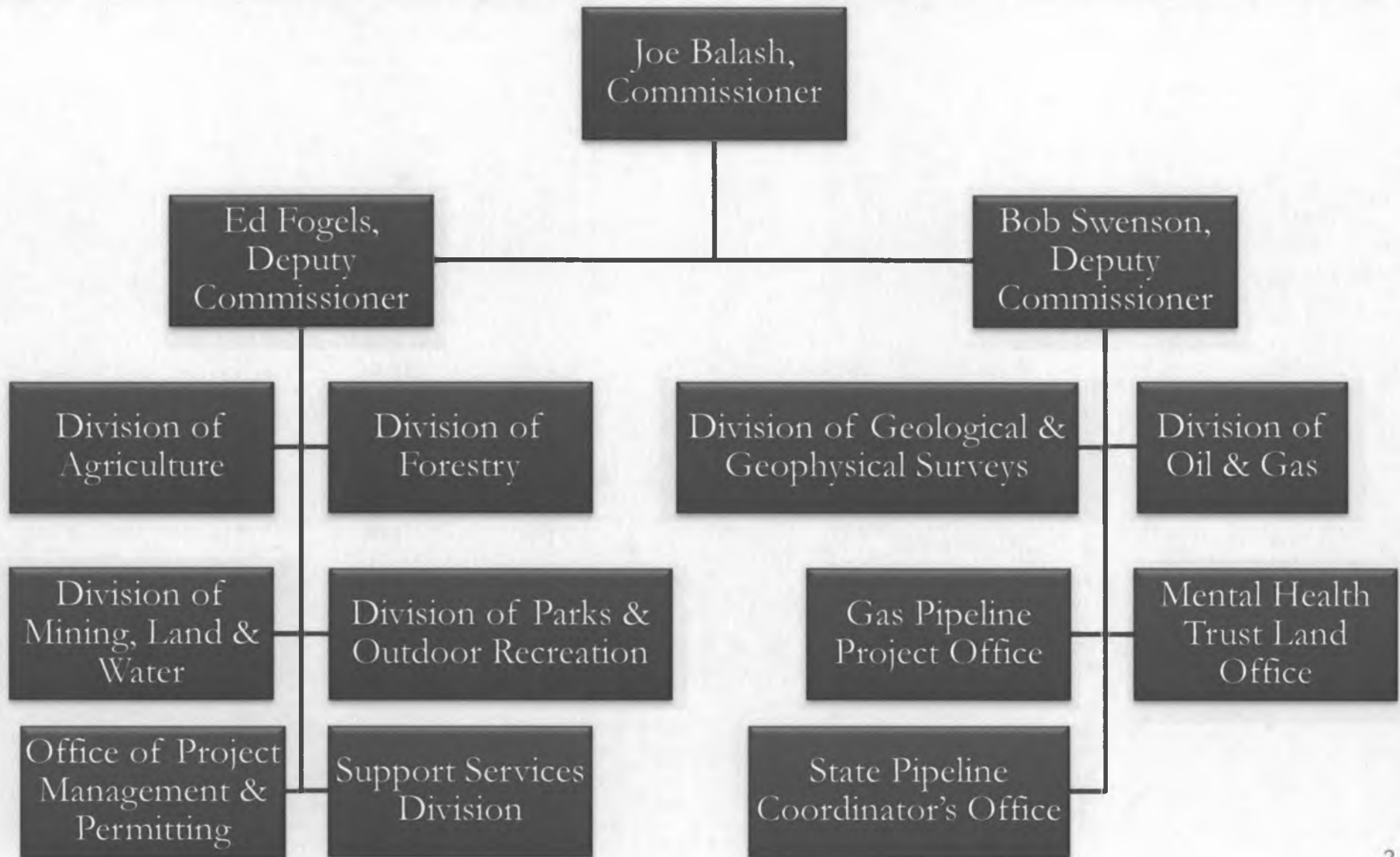
Commissioner Joe Balash

Alaska Department of Natural Resources

www.dnr.alaska.gov

STATE of ALASKA

- DEPARTMENT OF NATURAL RESOURCES -



DNR KEY 2013 ACCOMPLISHMENTS

- GAS PIPELINE PROJECT OFFICE -

Eric Hatleberg, Acting Director

- Monitors efforts by the Alaska Pipeline Project (APP) to design, develop, construct and operate a 48-inch natural gas pipeline to commercialize North Slope natural gas
- Key Accomplishments:
 - Monitored APP progress and reimbursable expenditures.
 - Facilitated project alignment between the State, North Slope producers, APP, and TransCanada in the Alaska LNG project
 - Lead the AK LNG-17 outreach effort describing the advantages of Alaska gas commercialization opportunities
 - Strengthened LNG technical analysis through oversight and review of B&V Royalty Study
 - Met with Japanese LNG buyers to maintain good communication and build readiness for commercial partnerships
 - Signed MOU with Resources Energy, Inc. (REI) to focus effort on a Cook Inlet LNG export project
 - Recommended cancellation of AGIA license: oversaw TC compliance in the preservation of data and documentation



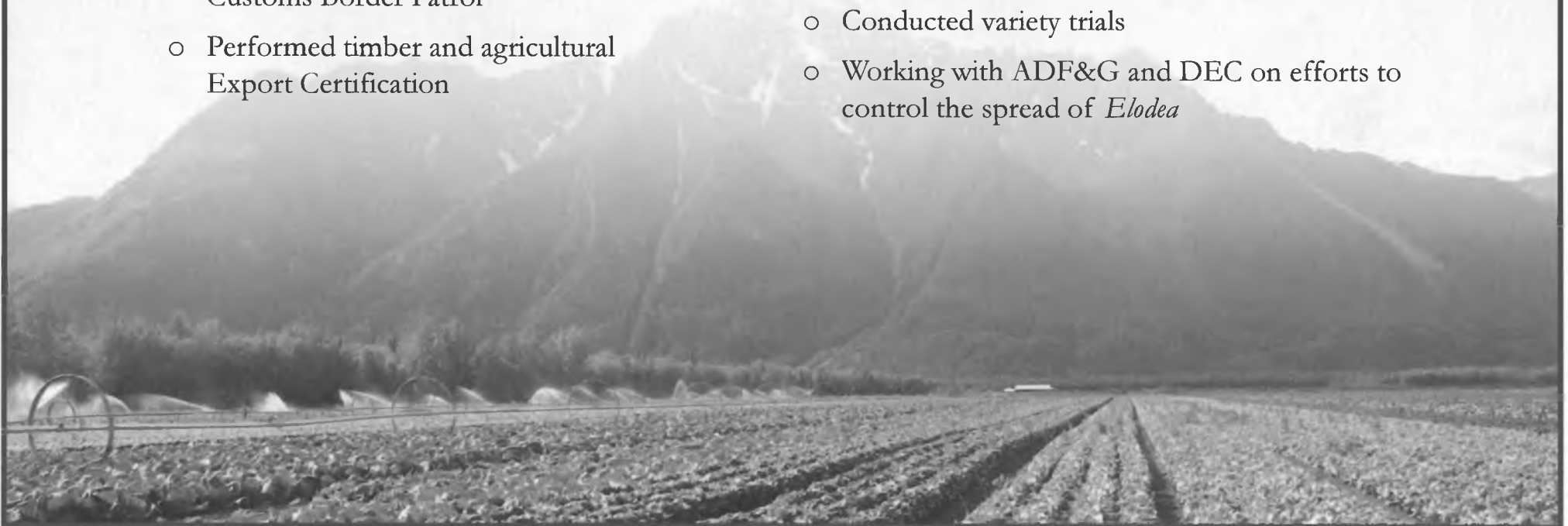
DNR KEY 2013 ACCOMPLISHMENTS

- DIVISION OF AGRICULTURE -



Franci Havemeister, Director

- Promotes and encourages development of an agriculture industry within Alaska
- Inspection Section
 - Conducted pest surveys the summer of 2012 & 2013
 - Performed U.S. - Canada Border Inspections in cooperation with Customs Border Patrol
 - Performed timber and agricultural Export Certification
- Land Section
 - Staff continues to identify state land with suitable agriculture soils
 - Ongoing discussions with farmers and stakeholders on the agriculture land program
- Plant Materials Center:
 - 407 acre production farm
 - Conducted variety trials
 - Working with ADF&G and DEC on efforts to control the spread of *Elodea*



DNR KEY 2013 ACCOMPLISHMENTS

- DIVISION OF AGRICULTURE -



- Marketing:
 - Increased Alaska Grown Farm Membership
 - Restaurant Reward Program increases use of Alaska Grown
 - Increased the number of Farmer's Markets accepting Supplemental Nutrition Assistance Program
- Farm to School:
 - Selected to receive the Alaska Community Service Award for Health (January 14)
 - Provided On-Farm Food Safety Workshops to producers
 - School Food Service Directors indicated that "there has been an increase in local foods served in schools as a result of the Farm to School Program".
 - Farm to School projects have been successful throughout the state
- Alaska Food Resources Working Group:
 - Formed through AO 265, resulting from HCR1



DNR KEY 2013 ACCOMPLISHMENTS

- DIVISION OF FORESTRY -

Chris Maisch, Director

- Serves Alaskans through forest management and wildland fire protection
- Forest Management and Development:
 - As a result of the Governor's Alaska Timber Job Task Force Recommendations:
 - Established a "Roads Office" within DOF
 - Promote the proposed Susitna State Forest (HB79/SB28)
 - Using a \$2.0 million CIP to develop infrastructure to access SE State Forest parcels (Gravina Island and Edna Bay)
 - Offered a 25 year long-term timber sale for 35,000 green tons of biomass per year in Tok Area to support a CHP project, currently available as and over-the-counter sale (OTC)
 - Sold 16,422,000 board feet of lumber to 37 Alaskan businesses (DOF data)
 - Provided direct and indirect support to 105 woody biomass projects (AEA data)
 - Continue to work with the USFS to implement the 2008 TLMP to support the timber industry in SE



DNR KEY 2013 ACCOMPLISHMENTS

- DIVISION OF FORESTRY -

- Fire Suppression Preparedness:

- Successfully and safely responded to our 4th. largest fire season over the past ten years (1.3M acres 613 fires) and our 2nd largest in the past five
- Continue to build out and deploy our Integrated Fire Management software tool to improve initial attack and overall fire management
- Aviation – completed procurement of a safer air attack platform, Aero Turbo Commander, with a second purchase closing this month
- Wildland Fire Crewboss Academy – 20 students received advanced training from 17 rural communities. A crewboss is needed to lead each 19 person EFF Type II Crew
- Partnered with UAF Wildland Fire Program to deliver the Advanced Firefighter training for the 2014 Academy



- Offered 14 internships for past graduates of the basic and advanced wildland fire academies
- Received five competitive WUI grants for a total of \$1.094M for hazard fuel mitigation projects in Mat Su, Fairbanks, Kenai, Tok
- Developed a project concept/vision for the Northern wildland fire facility



DNR KEY 2013 ACCOMPLISHMENTS

- DIVISION OF GEOLOGICAL & GEOPHYSICAL SURVEYS -

Steve Masterman, Acting Director

- Determines the potential of Alaskan land for production of metals, minerals, fuels, and geothermal resources, the locations and supplies of groundwater and construction material, and the potential geologic hazards to buildings, roads, bridges, and other installations
- Minerals Section:
 - Completed year 3 of the Strategic and Critical Minerals project, with 2,600 square miles assessed for platinum group elements in the central Alaska Range
 - ~10,000 samples analyzed or published
 - Acquired (3,311) or published (1,267) 4,578 square miles of airborne geophysical data
 - Assessed and mapped 212 square miles in the Styx River area (Cu and Au deposits)
- Energy Section:
 - Mapped 250 sq. mi. in west Cook Inlet basin focused on the Mesozoic petroleum system
 - Discovered two new oil-stained sandstones in older Mesozoic units in the Cook Inlet
 - Collaborated with UAF and the USGS on the shale oil potential on the North Slope, a target of high interest to industry
 - Completed compilation of geothermal data for Alaska



DNR KEY 2013 ACCOMPLISHMENTS

- DIVISION OF GEOLOGICAL & GEOPHYSICAL SURVEYS -

- Geological Materials Center:

- Building purchased for collection relocation, expansion, and improved industry access
- Construction begins in spring and summer 2014, with grand opening September 2014



- Engineering Geology Section:

- Initiated Hydrogeology program, with a resource development and community focus
- Completed engineering geology mapping for DOT&PF at the Yukon River Bridge
- Completed geologic-hazards field reconnaissance along the proposed in-state gas pipeline from Livengood to Prudhoe Bay
- Tsunami inundation maps, reports and GIS maps published online for 5 communities
- Coastal hazards assessments conducted in 8 communities



- Volcanology Section

- Compiled geologic information for Chiginigak, Makushin, and Okmok volcanoes
- Geologic mapping and description of 2008 Kasatochi eruption



- Geological Communications Section

- Launched four datasets in a new interactive online map series
- Published 52 new geologic maps and reports, distributed 2,579 publications, and recorded nearly 6.1 million web page views

DNR KEY 2013 ACCOMPLISHMENTS

- MENTAL HEALTH TRUST LAND OFFICE -

Marcie Menefee, Executive Director

- Protect and enhance the value of Alaska Mental Health Trust Lands, including minerals, coal, oil and gas, timber, and real estate, while maximizing revenues from those lands over time to support mental health services
 - Key Accomplishments:
 - Conducted two timber sales generating over 10 MMBF and ~\$1 Million in revenue
 - Land sales and rentals across the state, both competitive and negotiated, provided \$4.4 Million in revenue
 - Coal and hardrock mining and exploration land contributed over \$5 Million in revenue (primarily Fort Knox, Chuitna, Chickaloon & Livengood)
 - Oil & Gas revenues, including a Cook Inlet lease sale, resulted in a record annual revenue high of \$3.2 Million
 - The real estate program, in its second year of implementation, brought in just over \$0.8 Million
- Made significant progress in a federal exchange of Trust land for Tongass National Forest land to preserve the Trust's timber portfolio
 - Authored and published a new and revised comprehensive long-term asset management plan (Resource Management Strategy, 2014) to establish goals and policies to effectively manage the Trust's natural resources

The TRUST
LAND OFFICE

DNR KEY 2013 ACCOMPLISHMENTS

- DIVISION OF OIL & GAS -

Bill Barron, Director

- Responsible for the leasing of state lands for oil, gas, and geothermal exploration
- Permitting Section:
 - 9 Plans of Operations (POOs) and 6 Miscellaneous Land Use (MLU) permits approved
- Leasing Section:
 - 24 leases awarded in Cook Inlet
 - 90 leases awarded in North Slope, all within 7 weeks of sale date
 - One geothermal lease awarded
 - 114 leases awarded converted from exploration licenses
 - Six applications for lease extension received. Five 2-year lease extensions approved (total acreage 12,720 at \$3/acre rent)
 - Continued strong advocacy to promote new investment and responsible development of Alaska's oil and gas resources



- Resource Evaluation Section:
 - Analyzed seismic and well data and identified significant prospectivity for methane hydrates on North Slope State acreage
 - 2009 Cook Inlet Gas Study affirmed with current Cook Inlet gas drilling success (Platts Gas Daily, 1-2-14)
- Units Section:
 - 17 North Slope Unit Plans of Development (POD) approved
 - 23 Cook Inlet Unit PODs approved

DNR KEY 2013 ACCOMPLISHMENTS

- DIVISION OF OIL & GAS -

- Audits Section:
 - 10 audits initiated; 6 audits issued; 4 audits appealed; 3 audits closed
 - Collected \$52,000
- Commercial Section
 - Continued monitoring under AGIA
 - Participated in DNR study to understand LNG markets
 - Developed method to mitigate the State's exposure to risk of lessee's failure to dismantle, remove, and restore an offshore platform in the Cook Inlet
- Petroleum Systems Integrity Office (PSIO)
 - Engaged Mary Kay O'Connor Process Safety Center at Texas A&M University to provide technical assistance to development of investigation protocols, operator management systems assessment program, and plan for tracking and trending system infrastructure conditions on state lands
 - Advised the State Pipeline Coordinator's Office (SPCO) on root cause analyses and chemical engineering.
- Royalty Section
 - Managed \$2,534,562,629

DNR KEY 2013 ACCOMPLISHMENTS

- DIVISION OF PARKS & OUTDOOR RECREATION -

Ben Ellis, Director

- Provides outdoor recreation opportunities and conserves and interprets natural, cultural, and historic resources for the use, enjoyment, and welfare of the people
- Recruited, hired, or trained more than 800 volunteers who donate over 76,000 hours of service with a cash value of \$1.2 million



Park & Outdoor Recreation Management



Alaska Trails Office



Design & Construction

Administration & Grants



Office of History & Archaeology

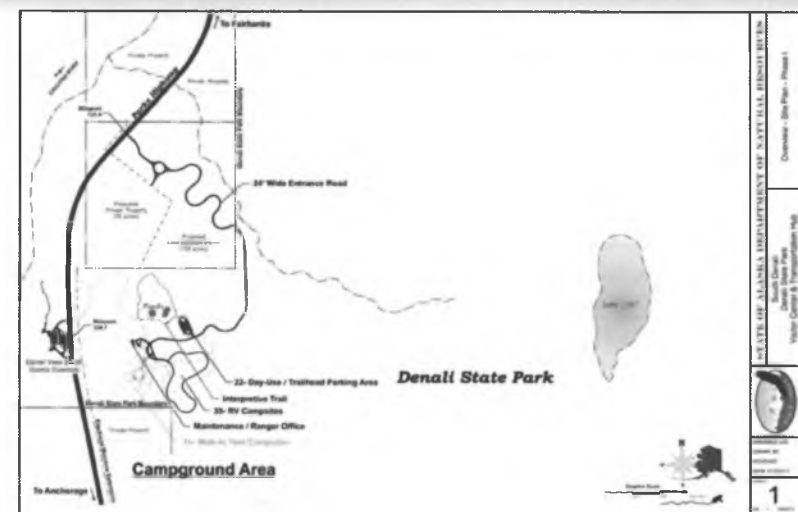


Office of Boating Safety

DNR KEY 2013 ACCOMPLISHMENTS

- DIVISION OF PARKS & OUTDOOR RECREATION -

- South Denali Visitor Center Complex:
 - Broke ground on the campground, which is the first built in 30 years
 - Phase One: Energizing Parks corridor
 - 2.3 mile gravel access road
 - 35 RV campsites/campground
 - Maintenance structure
 - 0.6 miles of trails
 - Phase One expanded:
 - 15 walk-in campsites
 - 5 miles of additional trails
 - Ranger Office added to maintenance structure
 - Phase Two:
 - Expand lower parking and build access road to top
 - Visitor Center
 - Additional Trails



DNR KEY 2013 ACCOMPLISHMENTS

- OFFICE OF PROJECT MANAGEMENT & PERMITTING -



Tom Crafford, Director

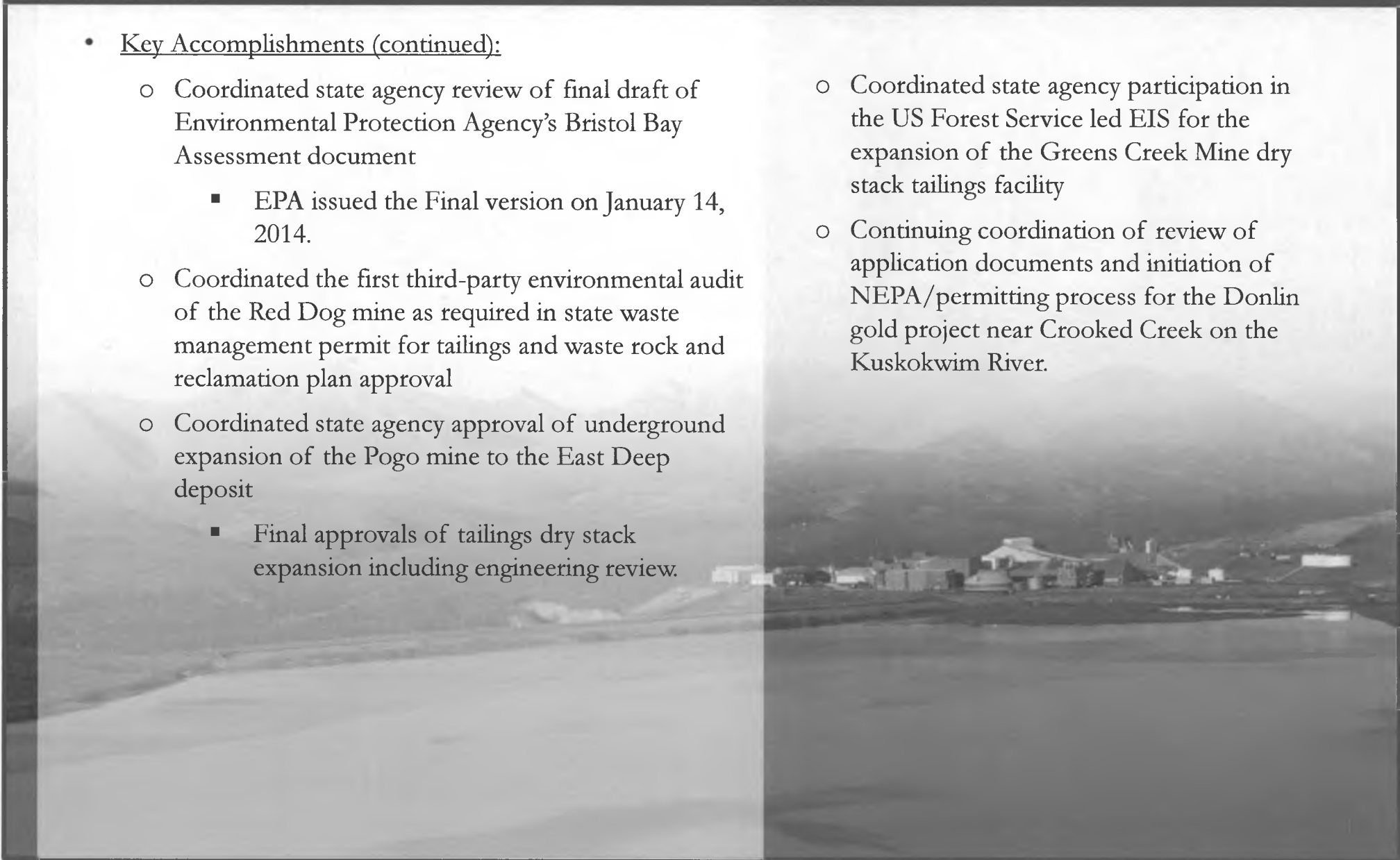
- Coordinates the review of larger scale projects in the state
- Key Accomplishments:
 - Signed Memorandum of Understanding (MOU) Agreements and initiation of permitting coordination for:
 - Oil & Gas: Buccaneer, Buccaneer Cosmo, LINC Umiat, Nordaq, and ConocoPhillips Greater Moose's Tooth
 - Mining: Graphite One's Graphite Creek Project in the Seward Peninsula and Free Gold's Golden Summit Project in the Fairbanks area
 - Coordinated the issuance of a complex, multi year special use permit for Apache to seismically image thousands of acres of subsurface hydrocarbon resources in the Kenai National Wildlife Refuge
 - Coordinated state agency participation and review of the United States Fish & Wildlife Services' Izembek Land Exchange Environmental Impact Statement (EIS) for a road connecting the King Cove community to the all-weather airport in Cold Bay
 - Unfortunately, on Dec 23 DOI Secretary Jewell denied the land exchange

DNR KEY 2013 ACCOMPLISHMENTS

- OFFICE OF PROJECT MANAGEMENT & PERMITTING -

- Key Accomplishments (continued):

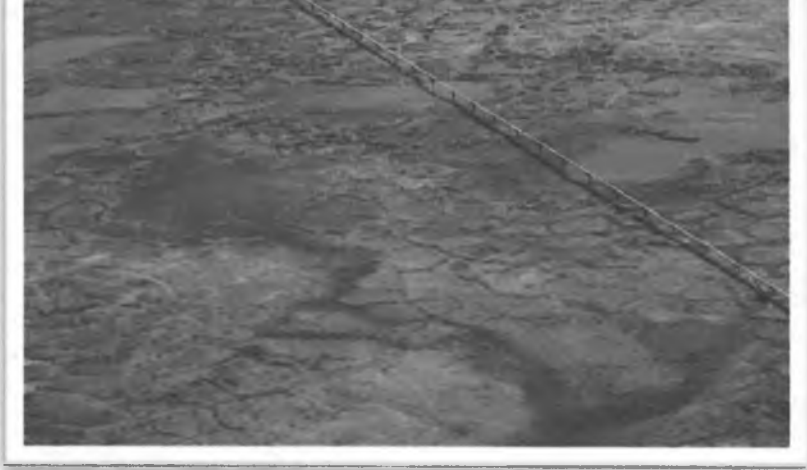
- Coordinated state agency review of final draft of Environmental Protection Agency's Bristol Bay Assessment document
 - EPA issued the Final version on January 14, 2014.
- Coordinated the first third-party environmental audit of the Red Dog mine as required in state waste management permit for tailings and waste rock and reclamation plan approval
- Coordinated state agency approval of underground expansion of the Pogo mine to the East Deep deposit
 - Final approvals of tailings dry stack expansion including engineering review.
- Coordinated state agency participation in the US Forest Service led EIS for the expansion of the Greens Creek Mine dry stack tailings facility
- Continuing coordination of review of application documents and initiation of NEPA/permitting process for the Donlin gold project near Crooked Creek on the Kuskokwim River.



DNR KEY 2013 ACCOMPLISHMENTS

- STATE PIPELINE COORDINATOR'S OFFICE -

Allison Iversen, Acting State Pipeline Coordinator

- Issues leases of state land for pipeline rights-of-ways and implements the state's policy set forth in Alaska Statute (AS) 38.35.010 concerning the development, use, and control of a pipeline transportation system within the state
 - Key Accomplishments:
 - Facilitated the Badami pipelines transfer-of-interest from BPTA to Nutaaq Pipeline, LLC
 - Released the 2013 SPCO Annual Report with new features and a more professional look
 - Facilitated the Oliktok change-of-service from natural gas liquids to natural gas
 - Received an amended application from Trans-Foreland Pipeline Co. for the proposed Trans-Foreland pipeline under Cook Inlet
 - Issued a right-of-way lease for Spectrum LNG Project
 - Completed the Commissioner's Analysis and Proposed Decision for the Polar LNG project
- 
- Adjudicated and finalized multiple amendments to the TAPS right-of-way lease to allow for system upgrades, improvements and necessary maintenance
 - Continue to coordinate state permitting and right-of-way efforts for the Alaska Stand Alone Pipeline/ASAP
 - Coordinated state permitting efforts for the AK LNG Pipeline
 - Oversaw initial construction of the Point Thomson Export Pipeline

DNR KEY 2013 ACCOMPLISHMENTS

- SUPPORT SERVICES DIVISION -

Jeanmarie Davis, Director

- Provides information technology, financial, budget, procurement, facility, and human resource services for Department of Natural Resources, and administers the statewide recording system
- Key Accomplishments:
 - Implemented electronic recording (eRecording) in 91% of recording districts (31 of 34) in 2013
 - Allows customers to electronically file their business with the state recorder's office
 - As of January 16, 2014, the three remaining districts (Homer, Kenai and Seldovia) became available for eRecording, making Alaska the 4th state to fully implement eRecording statewide)
 - Installed IBM Business Process Management servers and software as part of permitting reform initiative
 - Continued participation in the IRIS (Integrated Resource Information System) project, a statewide effort led by a project team in the Department of Administration
 - IRIS is a new accounting, financial, procurement, payroll and human resource management system
 - Provided programmer support for the Unified Permit Automation project, designed to modernize and automate permitting for state land and water use requests, and helping make the state's permitting process more efficient, timely and certain
 - Land use permits were implemented in 2013, with water rights scheduled for February 2014

Linda Hay

From: Trevor Fulton
Sent: Sunday, February 02, 2014 6:49 PM
To: Anna Latham; Chere Klein; Joshua Walton; Julie Koehler; Linda Hay; Louie Flora; Rena Delbridge; Rep. Craig Johnson; Rep. Eric Feige; Rep. Geran Tarr; Rep. Kurt Olson; Rep. Lindsey Holmes; Rep. Mike Hawker; Rep. Paul Seaton; Rep. Peggy Wilson; Rep. Scott Kawasaki; Riley Leonard; Robert Ervine; Samantha Weinstein
Cc: Alexis Grundmann; Alicia Egan; Ben Mulligan; Brandon Brefcynski; Esther Tempel; Heather Brakes; Paulyn Swanson; Rachel Zepp
Subject: DNR Responses to 1/24/2014 Overview in HRES
Attachments: 1.31.14 House Resources DNR Overview Responses.pdf; 9.5.13 Letter to Trond-Erik Johansen ConocoPhillips.PDF

All,

Please find the attached (1) response from DNR to questions raised during their departmental overview in HRES on 1/24/2014 and (2) letter from DNR to ConocoPhillips regarding the Kenai LNG export facility, which was mentioned during that hearing.

Please let me know if you have any questions.

Regards,

Trevor Fulton

House Resources Committee Aide
Office of Rep. Dan Saddler
907-465-3768
trevor.fulton@akleg.gov



THE STATE
of **ALASKA**
GOVERNOR SEAN PARNELL

Department of Natural Resources

Office of the Commissioner
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Anchorage, Alaska, 99501-3650
Phone: 907.269.8431
Fax: 907.269.8918

January 31, 2014

The Honorable Dan Saddler, Co-Chair
The Honorable Eric Feige, Co-Chair
House Resources Committee
Capitol Rm. 124
Juneau, AK 99801

Dear Representatives Saddler and Feige:

During the House Resources committee meeting on January 24, questions were asked by committee members and the Department of Natural Resources offered to provide some follow-up. The questions are italicized and underlined. Also attached is the letter referenced by Commissioner Balash regarding ConocoPhillips's LNG Export Facility and the availability of gas for local use.

Representative Saddler asked what the plans are for the old Geologic Materials Center (GMC) property in Eagle River.

DNR is currently aware of some environmental issues with a couple of the older buildings on the property that will need to be resolved prior to determining any future actions. This examination will likely occur as the materials are moved from the Eagle River property to the new GMC. The property belongs to DNR, so if sold, the proceeds would go into the Land Disposal Income Fund (LDIF). There is also the possibility that another agency may want the property. Whatever action is taken, DNR intends to first address the environmental issues.

Representative Seaton inquired about the location of the DGGS/UAF shale oil study on the North Slope, specifically relating to whether or not the study occurred on previously issued North Slope shale leases.

The Division of Geological and Geophysical Surveys (DGGS) initiated a collaborative project in 2012 with the U.S. Geological Survey and the University of Alaska Fairbanks to evaluate the geology of potential shale oil units on the North Slope. Initial fieldwork has focused on the stratigraphy and geochemistry of the prolific oil-prone Shublik Formation exposed in the eastern Brooks Range foothills; subsequent work will evaluate the organic-rich Cretaceous Hue Shale. This project aims to acquire key subsurface and surface data, including the collection of a diverse suite of samples for laboratory analysis. This study will help any future development determine the distribution of the best source rock intervals and is not on any previously issued leases.

Representative Feige requested an update on snow machine access in Hatcher Pass and information on rest stop maintenance at Worthington Glacier.

Hatcher Pass

Recreation demands by the public have increased year-round in the Hatcher Pass area, especially in the winter, for both motorized and non-motorized recreationalists. Regulations consistent with the 2010 management plan for the Hatcher Pass area were adopted in mid-January 2013 but because of the timing, it was difficult to effectively implement the changes in use boundaries. During the 2012/2013 winter season, state park staff focused their efforts on educating the public about the new boundaries established for motorized and non-motorized winter recreation.

Approximately 283,000 acres are open to snowmachine use in the management area. In a Commissioner's Decision issued in May 2011, DNR recognized that by retaining the closure to Snow Bird Pass to motorized use, motorized use was effectively restricted to the much larger High Glacier Peaks area. Approximately two years subsequent to the implementation of the revised regulations for the Hatcher Pass Management Plan Area, the department will reassess the appropriateness of opening Snow Bird Pass to snowmachine use. Such a decision, if one is to be considered, will require a public hearing and plan amendment and is expected to receive extensive public input.

Based on complaints received this past winter season, DNR recognizes that there has been a problem with certain areas which are designated as non-motorized but experience motorized use. However, the boundary change has only been in effect for one partial winter season and changing recreational behaviors takes time, field presence and public outreach.

This winter, park staff is taking a more aggressive approach to enforcement of the regulations. In addition, signage has been improved on the problematic Goodhope Creek boundary and along Archangel Road. Better maps and use boundary information will be posted at primary trailheads, and volunteers will be solicited to help monitor trouble spots and inform the public. Recreational conditions are being posted weekly on the state website, email lists and Facebook to help the public understand conditions and potential problem areas.

As available, Rangers from other areas are being temporarily assigned to maintain a stronger presence during peak use times. Rangers will still promote responsible recreational use through education, but will be taking a more aggressive role in prosecuting obvious trespass cases. However, this area may still experience enforcement challenges with only one full-time ranger dedicated to the Hatcher Pass area and the difficulty in identifying riders to successfully issue citations. As of January 28, 2014, four citations have been issued to motorized use in non-motorized areas. This is normal for this time of year and snow conditions have been marginal. Recreational use conflicts generally reach their peak in March and April when snow conditions are usually the best and longer daylight attracts all user groups in larger numbers.

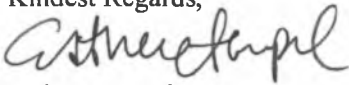
Worthington Glacier

Until they closed their retail outlet located at Worthington Glacier State Recreation Site, Alaska Geographic's staff provided information and interpretation to visitors there during the summer months. The Division of Parks & Outdoor Recreation hired Alaska Geographic's former Worthington Glacier SRS staff for the following three summers through the Alaska Conservation Corps program. The ACC

program is a workforce development program in which employees may participate for up to a cumulative total of twelve months. The SRS remains open and visitors may park and walk to the observation deck to view the glacier in the summer. Last year, new CXT restrooms replaced the dilapidated latrine near the observation deck and one of the new restrooms was relocated near the entrance of the park so that those who park and snowmachine from the lower parking lot have a facility to use in the winter. The division has two staff positions based in Valdez: a park ranger and a seasonal ACC employee. Both employees work not only at Worthington Glacier SRS but at the other two land based park units and the three state marine parks managed out of the Valdez office. The division has unsuccessfully recruited for a volunteer host to work at Worthington Glacier SRS for the past three years and is again advertising for a host for the 2014 summer season.

If there are any additional questions, please let me know.

Kindest Regards,



Esther Tempel
Legislative Liaison



THE STATE
of **ALASKA**
GOVERNOR SEAN PARNELL

Department of Natural Resources

Office of the Commissioner
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September 5, 2013

Trond-Erik Johansen
President
ConocoPhillips Alaska
700 G Street, ATO 2100 (99501)
P.O. Box 100360
Anchorage, AK 99510-0360

Dear Mr. Johansen,

I am writing to you to request that ConocoPhillips take action to support the State's broad interests in continued investment and exploration in Cook Inlet. Recent filings at the Regulatory Commission of Alaska (RCA) indicate that local utility demands will be supported by contracts that cover the next five years, or until 2018. The State's objective is to foster an environment in Cook Inlet that continues to provide supplies of gas that are adequate to meet demand and can be reliably contracted for by local utilities. This requires market opportunities in the near term that incentivize companies to invest in the exploration and development today that will lead to secure supplies in the future. Robust oil and gas activity in the Inlet is critical to the State's primary focus on energy security – that an adequate supply of natural gas from Cook Inlet is available for Alaskans' heating and electricity needs.

To provide an additional market opportunity for gas from the Inlet, I request that Conoco Phillips file an application with the Department of Energy's Office of Fossil Energy for a three year authorization to export Liquefied Natural Gas (LNG) from your facility in Kenai, Alaska. In addition to promoting energy security, the oil and gas activity this market opportunity would support also advances the State's interests in economic health, robust employment, and responsible development of the State's abundant natural resources.

The current supply of local utilities' contracted gas is the result of a resurgence in investment in Cook Inlet during the last several years. A variety of factors have supported the recent increase, including legislative support for tax credits, ownership transitions, and state advocacy. Recent years have seen significant spending in the Inlet by new companies with substantial exploration budgets, as well as in-field developments that are revitalizing existing fields. This investment brings jobs and economic opportunities to Alaskans in addition to energy security. It is very much in Alaskans' interest that these high levels of Cook Inlet investment continue, both within existing fields and in new exploration areas.

Now that contracts can support local utility demands through 2018, there are concerns that future exploration budgets may be significantly scaled back. Without market opportunities for gas discoveries, companies lack the incentive to invest in continued exploration activities. In addition to the economic challenges this would present for those employed in the Cook Inlet energy industry, a lack of healthy exploration now may lead to supply contractions in the future as existing wells' production levels decline.

Diminished exploration budgets also hurt the State's interest in seeing its resources developed. State lands in Cook Inlet hold tremendous amounts of possibly recoverable natural gas, and the United States Geological Survey has estimated that the entire basin may still hold trillions of cubic feet. More market opportunities would create a more attractive business environment for gas sales that would in turn encourage aggressive exploration to utilize the State's resources.

Were exploration efforts to encounter significant success, new long-term industrial and economic opportunities in the State's interest, including long-term LNG exports, could be considered. While it appears that Agrium is interested in re-starting their facility, which would support a long-term demand for Cook Inlet supplies, their project start-up date could leave a gap in the near-term. It appears that the only near-term market opportunity for significant additional demand lies with the re-opening of the Kenai LNG facility.

As you are aware, limited market opportunities threaten the long-term deliverability of existing gas wells in addition to future exploration prospects. When existing wells that could be in production are 'shut-in' due to lack of demand for gas, water can migrate through the reservoir and mix with sandstone clays. This creates sand in the well bore and causes serious operational problems when there are attempts to restart production. Such operational problems negatively impact the State – especially in cases where the State is the resource owner – as they limit resource recovery and thus economic activity on leases. Renewed operations at the Kenai LNG facility will allow wells to maintain flow during the summer months when local utility demand is at its lowest and avoid these problems.

Consistent with the interests described above, I also request that you install an appropriate LNG truck-rack and other necessary equipment at the Kenai facility to support the shipment of LNG by truck throughout Alaska. The Governor and State Legislature have taken important steps to support the use of North Slope gas in the Interior of Alaska, including financial support for the build-out of distribution infrastructure. The installation of truck-rack equipment in Kenai would provide a back-up plan to strengthen Interior Alaska's energy security, as well as another possible outlet for Cook Inlet's gas supplies.

The operation of ConocoPhillips Kenai LNG export facility is needed to sustain exploration and development budgets and activity in the Inlet. The State's concern is that the recent rise in investment will falter if these kinds of market opportunities are not available in the near future. The State is making every effort to continue to support exploration in Cook Inlet and advance Alaska's interrelated interests in energy security, economic security, and resource recovery.

Thank you for your consideration. I would be happy to discuss these issues further and answer any questions that you may have. I look forward to continuing to work with you to support Cook Inlet's oil and gas industry.

Sincerely,

A handwritten signature in black ink, appearing to read 'J. Balash', written in a cursive style.

Joseph R. Balash
Acting Commissioner
Department of Natural Resources