



Denali Commission  
510 L Street, Suite 410  
Anchorage, AK 99501

907.271.1414 *tel*  
907.271.1415 *fax*  
888.480.4321 *toll free*  
[www.denali.gov](http://www.denali.gov)

INSPECTOR GENERAL

January 2007

To: George Canelos, Federal Co-Chair  
From: Mike Marsh, Esq., Inspector General  
Subject: Inspection of Sterling Landing tank farm

FINAL REPORT

FOR PUBLIC RELEASE

On September 18, 2006, I conducted a routine inspection of the tank farm at Sterling Landing. The purpose of this inspection was to confirm (1) activity at the project site and (2) the traceability of individual expenditures within the total reported to the Denali Commission on OMB Form 269A.

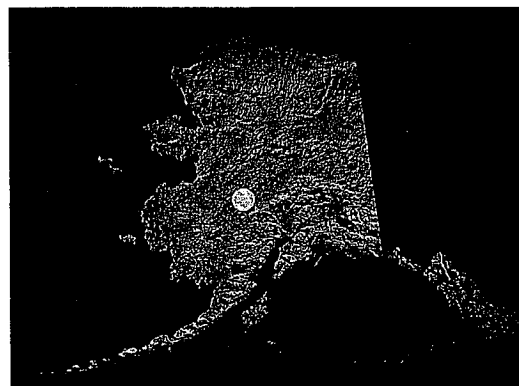
The Commission's implementing "program partner" is the Alaska Energy Authority (AEA). As of October 2006, AEA had reported total expenditures of around \$1.25 million for this facility.

#### PROJECT BACKGROUND

##### 1. Project location

Sterling Landing is located on the Kuskokwim River, one of Alaska's two main interior watercourses. Barges unload there after making the 350-mile trip from the Bering Sea during the ice-free summer months.

No one lives at Sterling Landing; it is literally the end of the road. Down this road 26 miles away is the tiny, unincorporated, mountain settlement of Takotna. The tank farm at Sterling Landing is one of the four facilities (total \$3.6 million) that the Denali Commission has built to serve Takotna's fuel and electricity needs.<sup>1</sup>



<sup>1</sup> These four facilities consist of (1) Takotna's power plant, (2) a tank farm for the community, (3) a fuel tank for the washeteria (community showers and laundry), and (4) the tank farm 26 miles down the road at Sterling Landing. These facilities are all owned by Takotna's community association.

The state demographer estimated Takotna's population at just 39 people in 2005.<sup>2</sup> The U.S. Census showed only 50 residents (19 households) there in 2000. The public school served a total of 12 students last year, ranging from first grade through a high school senior. The phone book lists 15 residential telephone numbers for Takotna's prefix.

Grant-seeking residents of Takotna challenge the state demographer's estimate of 39 people; in fact, they assert more than the count of 50 recorded in the last census. But all seem to agree that Takotna's population by any count is well below 100.

However, any assumption that Takotna's population is expanding — rather than declining — seems contrary to the past trend for that region. Takotna lies within the Yukon-Koyukuk census area, which had a history of net "out migration" during the five years preceding the 2000 Census.<sup>3</sup>

Funding for projects such as this reflects the Commission's aspiration that "*[a]ll Alaska, no matter how isolated, will have the physical infrastructure necessary to protect health and safety and to support self-sustaining economic development.*"<sup>4</sup>

The tank farm at Sterling Landing is only used for temporary fuel storage after a barge unloads during the summer. Before snow closes the winding gravel road into the mountains, fuel is trucked to Takotna and various other users — including local gold mines and a 5,000-acre federal complex that has dominated the area for 50 years.

## 2. Federal presence at Takotna

The federal government has a complex of just under 5,000 acres at Takotna Mountain, which is 18 miles up the gravel road from Sterling Landing. The tiny settlement of Takotna lies eight miles further.

For the past 50 years, the U.S. Air Force has operated a radar station atop Takotna Mountain. For several decades of that period, the Air Force maintained its own 237,000-gallon tank farm at Sterling Landing and resupplied it annually through Operation Cool Barge. In contrast, the new Denali-funded tank farm there holds only 125,000 gallons.

Today, the Air Force simply buys its fuel from a vendor who leaves it in the Denali-funded tanks for pickup. This fuel is then trucked up the road 18 miles to the Air Force's own tanks, whose total capacity of 444,000 gallons dwarfs all others in the area. By comparison, the community storage tanks that the Denali Commission funded in Takotna have a total capacity of only 104,000 gallons (less than a fourth of that found at the radar station).

Up to 170 people once lived at the radar station (again dwarfing Takotna itself). However, like lighthouses and air navigation aids, radar stations have now become highly automated. In fact,

---

<sup>2</sup> See [www.commerce.state.ak.us/dca/commdb](http://www.commerce.state.ak.us/dca/commdb).

<sup>3</sup> See Greg Williams [state demographer], "Migration," *Alaska Economic Trends* (July 2004), pages 4, 8-9.

<sup>4</sup> *Denali Commission Five Year Strategic Plan (2005-2009)*, p. 3 (emphasis added).

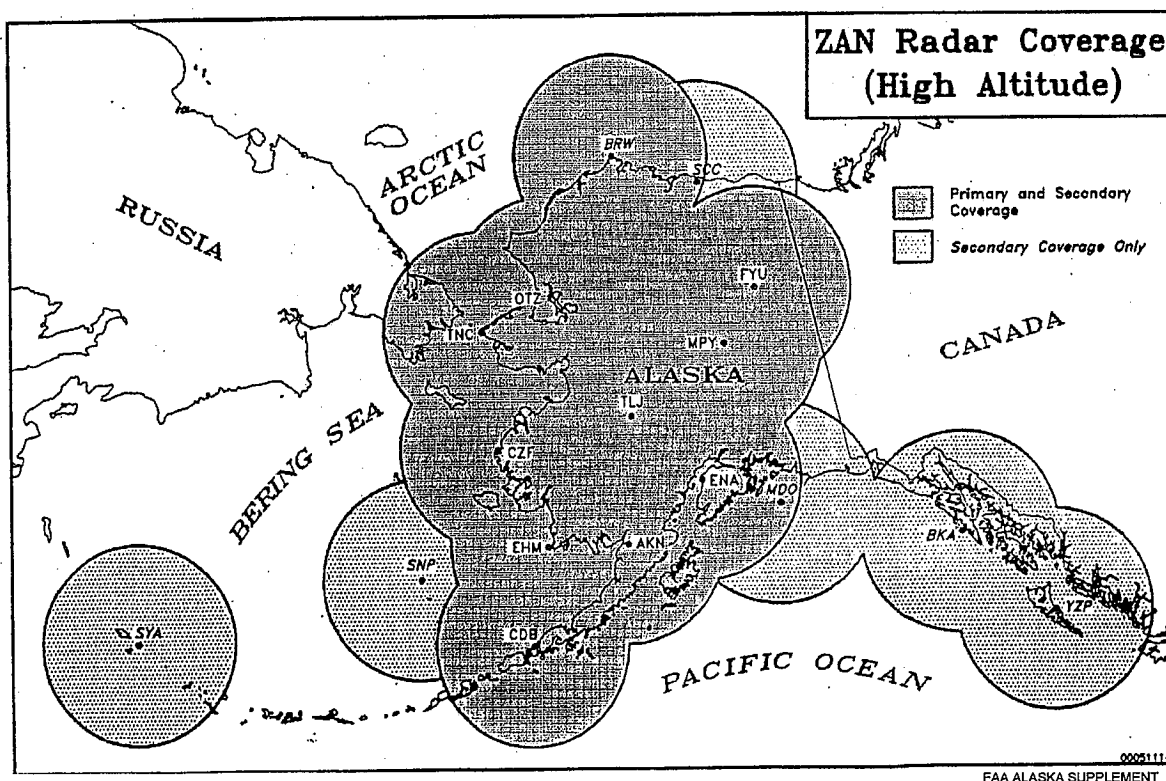
the national press from California to Florida seemed intrigued some years back with the changing role of the Takotna facility.<sup>5</sup> The soldiers are long gone, with the large modern quarters now occupied by only a handful of civilian contract technicians.

Though automated, the radar still takes electrical power. And electrical power still takes fuel. Like the Air Force fuel tanks, the station's four generators (total capacity of 700 kilowatts) overshadow those of everyone else in the area. By comparison, the little Denali-funded power plant for the residents of Takotna has a total capacity of only 216 kilowatts (less than a third of that found at the radar station).

While the identity and technology of national threats have changed over 50 years, the need for this radar station has not. Though still operated by the Air Force, it has since the 1980s been steadily converted to an important component of the FAA's national system for air traffic control.

Exhibit 1 below shows the FAA's depiction of this station (coded as "TLJ") in the center of radar coverage for airliners traversing Alaska. Public materials indicate the FAA's intent to continue this use of the Takotna radar at least through the year 2024.<sup>6</sup> In fact, the FAA has expanded this station's importance to air traffic control by installing the new Capstone navigation equipment that increasingly benefits the air taxis that service the hazardous Kuskokwim region.

EXHIBIT 1



<sup>5</sup> See *Miami Herald* (June 29, 1997), *Vancouver (Wash.) Columbian* (June 24, 1997), *Seattle Times* (July 20, 1997), and *San Jose Mercury News* (June 28, 1997).

<sup>6</sup> See [www.nas-architecture.faa.gov](http://www.nas-architecture.faa.gov).

Power generated at the radar facility further supports the following: (1) automated equipment for observing the local weather; (2) a radio repeater for civilian air traffic; (3) Air Force seismic sensors that monitor worldwide nuclear detonations; (4) a modern military runway for large cargo planes (twice as long as the “bush” strip at the village itself).

### 3. Facility users

Planning by the Alaska Energy Authority (AEA) anticipated that the new tank farm at Sterling Landing would serve the Air Force, the residents of Takotna, and several gold mines found along the 80 miles of local roads. The annual flow through this facility is estimated, depending upon the source consulted, to be divided among these users as shown below in Exhibit 2.

Exhibit 2 is presented to generally show the anticipated users of the Sterling Landing tank farm. During this limited inspection, I did not attempt to “audit” any party’s actual current usage. I did note, though, that a military fuel solicitation has advertised the radar station’s need for a “minimum delivery” of 130,000 gallons and an “average delivery” of 142,000 gallons.<sup>7</sup>

While the Denali Commission prides itself on the need for applicants to submit a “business plan,” that document in this case offers little insight concerning the various users. The three Denali-funded tank facilities (one at Sterling Landing, two at Takotna) are all lumped together as “the Facility,” with no projection of the total number of users and no allocation among the different categories of users. Rather, it just predicts an “initial annual throughput” of 120,000 gallons, with assumed linear increases each year thereafter.

Similarly, the business plan for Takotna’s Denali-funded power plant predicts an initial annual fuel consumption of 22,250 gallons with no indication of the number of customers to be served.

EXHIBIT 2 COMPARISON OF ANTICIPATED USERS				
USER	TOTAL GENERATOR CAPACITY (kilowatts)	TOTAL YEAR-ROUND STORAGE CAPACITY (gallons)	ESTIMATED ANNUAL FUEL FLOW (gallons)	
			<i>Low estimate</i>	<i>High estimate</i>
Takotna community	216	104,000	80,000	87,500
Federal complex	700	444,000	123,000	203,000
Gold mines	unknown	unknown	85,000	86,000

<sup>7</sup> The military’s online fuel solicitation (effective date Oct. 29, 2004) advertised the radar station’s 444,000-gallon tank capacity, with a “minimum delivery” of 130,000 gallons and an “average delivery” of 142,000 gallons (see [www.desc.dla.mil](http://www.desc.dla.mil)).

#### 4. Contributors to the project

The final bill for the Sterling Landing tank farm is estimated at \$1.27 million.

Beyond the underlying land furnished by the community, the only contributors other than the Denali Commission are two state agencies that are together providing a total of about \$42,000 (less than 4%).

As noted above, the Sterling Landing tank farm has a significant role in servicing the federal facilities at Takotna Mountain. However, there are no federal participants in this project other than the Denali Commission.

#### EXPENDITURE TRACEABILITY

This tank farm project was funded as part of two "lump sum" awards to AEA that cover numerous other projects around the state.<sup>8</sup> Nevertheless, computerized accounting records at AEA enabled a traceable "roll-up" from individual project expenditures, to project totals, to the cumulative expenditures reported<sup>9</sup> on OMB Form 269A.

#### CONTROL OVER PURCHASES

In my review of AEA's accounting records, I judgmentally selected various expenditures of interest for further study. Documentation (e.g., invoices) was readily available and consistently supported the purchases, with one exception. A bill for \$119 of legal services pertained to an unrelated facility but was erroneously charged to this project.

#### PROJECT'S PHYSICAL STATUS

My inspection verified that a facility consistent with AEA's project records has been completed on the expected site at Sterling Landing. The tank farm consists of five tanks with a total storage capacity of 125,000 gallons. My observations were consistent with the photographs that AEA has previously submitted for public display on the Commission's online project database at [www.denali.gov](http://www.denali.gov).

An AEA contractor addressed final punch-list items during the past summer, and AEA formally turned the project over to the local community association in September 2006. The tank farm is now in operation.

---

<sup>8</sup> Denali Commission award nos. 48-DC-2002-11, 97-DC-2003-111.

<sup>9</sup> As of the third quarter of federal fiscal year 2006.

## PUBLIC COMPLAINTS

The elephant and the mouse appear to have been good neighbors here. As the radar station has converted to “minimally-attended” technology, the families of tiny Takotna have benefited from military “hand-me-downs” of everything from an exam table to a storage tank to a fuel truck. However, the community has also inherited its proximity to soil contamination from former military structures that the Air Force is over time remediating.

One of these environmental “brownfields” is the tract formerly occupied by the Air Force’s tank farm at Sterling Landing. Since 1994, the Air Force has been assessing the site’s contamination. At a May 2003 public meeting in Takotna, the Air Force indicated its plans to remediate Sterling Landing during 2005.

AEA started its construction in June 2003 and wisely selected a “clean” site next door. But transport of the new tanks across the forbidden brownfield has unfortunately enmeshed AEA, one of its contractors, and a Takotna resident in an investigation by the state’s “environmental crimes unit.”<sup>10</sup> While this is only an administrative proceeding at this point, the cost for AEA to defend the matter (\$2,244 in legal and consultant fees so far) is being paid from the Denali Commission’s grant. In effect, Denali’s grant to the State of Alaska is being used to defend one state agency in a battle with another state agency.

When the new tanks arrived by barge, they somehow had to traverse the several hundred feet between the shoreline and the construction site. The state’s environmental regulator alleges the following:

*The primary disturbance to contaminated soil took place in September 2003, when tanks for an AEA project at Sterling Landing were offloaded. . . The disturbance of contaminated soil in September 2003 was performed by a bulldozer operated by [the Takotna resident], who reports that at the time he was paid by, and acting on behalf of, [a contractor]. [The latter] was in turn working under contract to AEA. . . As provided by Alaska Statute 46.03.822, the state looks to AEA, [its contractor], . . . and [the Takotna resident] to reimburse the state’s expenses to respond to this incident. . .*<sup>11</sup>

And the state’s regulator further wrote the following to the Takotna resident in September 2006:

*[T]he State has a statutory obligation to collect its response costs from responsible parties. As such, you and the other parties are responsible for the \$35,000+ the State has paid in response costs for the Sterling Landing site. . . If I do not hear from you in the near future I will be forced to file a complaint against you seeking the remainder of the State’s costs. . .*<sup>12</sup>

<sup>10</sup> See the Alaska Department of Environmental Conservation’s Contaminated Sites Database at [www.dec.state.ak.us/spar](http://www.dec.state.ak.us/spar) (August 31, 2004 update entry for file no. 2655.38.011).

<sup>11</sup> Letter dated April 18, 2006 from the Alaska Department of Law to the parties. Two further individuals were named in the letter due to their alleged involvement in a separate, later incident at Sterling Landing.

<sup>12</sup> Letter dated September 7, 2006 from the Alaska Department of Law to the Takotna resident.

As indicated above, the Air Force publicly acknowledges its need to remediate this site where its 237,000-gallon tank farm stood for several decades. However, the military is not a party to the state's enforcement action.

This regulatory dispute is still pending at an administrative level. And, of course, the court system — rather than the Commission or its inspector general — is the final authority on any party's responsibility in the matter.<sup>13</sup> However, this matter is of legitimate concern to the Commission to the extent that its grant may be chargeable for AEA's legal defense and settlement.

Under the federal OMB's Circular A-87, an open question exists as to whether any settlement in this dispute would be an allowable charge against the grant. The pertinent restriction<sup>14</sup> provides the following:

*Fines and penalties. Fines, penalties, damages, and other settlements resulting from violations (or alleged violations) of, or failure of the governmental unit to comply with, Federal, State, local, or Indian tribal laws and regulations are unallowable except when incurred as a result of compliance with specific provisions of the Federal award or written instructions by the awarding agency authorizing in advance such payments.*

In the Federal Co-Chair's response to my draft report, he indicates that "[t]he Commission is aware of the pending regulatory dispute." Since this grant is subject to Circular A-87, he may wish to ask OMB's technical manager for an interpretation clarifying allowability.

The existence of this environmental dispute underscores my previous recommendation to include grant conditions requiring immediate notification of any administrative proceedings or court cases involving a Commission project.<sup>15</sup> The need for such notice was reinforced last month when a potential vendor sued two members of AEA's management for their decisions in Denali-funded power plant projects.<sup>16</sup> The suit requests that a Bethel jury award a money judgment that includes punitive damages.

This latter case does not involve the inspected facility at Sterling Landing. I also realize that the suit may be subject to certain governmental defenses<sup>17</sup> that may produce a pretrial disposition,

---

<sup>13</sup> Congress' comptroller general has issued a professional standard that cautions government reviewers to avoid interference with investigations and litigation. *Government Auditing Standards* (2003) § 7.26.

<sup>14</sup> OMB Circular A-87, attachment B, sec. 16.

<sup>15</sup> See my September 2006 inspection report concerning the power plant at Buckland.

<sup>16</sup> Superior court case no. 4BE-06-282 Civil.

<sup>17</sup> See, e.g., AS 09.50.250(3) (immunity for various intentional torts); AS 09.50.250(1) (immunity for discretionary functions); AS 09.50.280 (bar on punitive damages); *Matanuska Elec. v. Chugach Elec. Assn.*, 99 P.3d 553, 559-561 (Alaska 2004) (discussion of preclusive effect of prior rulings, exhaustion of administrative remedies, and primary jurisdiction of agencies); *Mt. Juneau Enterprises v. City of Juneau*, 923 P.2d 768, 776-777 (Alaska 1996) (claims against city barred by failure to exhaust administrative remedies); AS 22.10.040 (change of trial location).

including the limits on suing state employees that the legislature enacted in 2004.<sup>18</sup> And I'm aware that the same vendor has a procurement dispute with AEA that is pending before the Alaska Supreme Court for a decision,<sup>19</sup> a dispute that also involves a Denali-funded power plant.

Nevertheless, such matters illustrate the need for the Commission's management to monitor the use of its grant funds for legal defense and the potential payment of settlements and judgments. And during the annual audit of the Commission's financial statements, it is advisable for the Commission to disclose to the outside auditor any claims or litigation that program partners are defending in funded projects.<sup>20</sup>

### CONCLUSIONS

In the commissioners' selection of this project, several opportunities for creative coordination went unexplored.

If there was ever an Alaskan archetype of an Appalachian settlement, remote Takotna would be it. I had the luxury of visiting amidst scenic fall colors rather than its months of winter darkness that can drop to  $-40^{\circ}$  F. And ideal weather facilitated an uneventful landing on the short mountainside airstrip that typifies much bush flying.

The tenacity of this handful of households cannot be denied. At various points, they've built their own church, aired their own radio station, and run their own charter school.<sup>21</sup> But the question is not whether these families need modern facilities but, rather, who should provide them.

If the Commission's goal was to move money, it got moved. If the goal was to infuse a village with cash, it got infused. But the Commission's fundamental documents suggest a more creative calling.

In the Commission's enabling act, the very first purpose listed by Congress was "*[t]o deliver the services of the Federal Government in the most cost-effective manner practicable by reducing administrative and overhead costs.*" And the Commission's responsibility as an intergovernmental "coordinator," not just rote funding, is repeatedly emphasized in its strategic plan.

Contributions by other entities are part of what needs to be coordinated, with the Commission's strategic plan providing that "*[p]riority will generally be given to projects with substantial cost*

---

<sup>18</sup> See AS 09.50.253.

<sup>19</sup> Alaska Supreme Court case no. S-12176 (currently pending for oral argument).

<sup>20</sup> Under Financial Accounting Standards Board statement no. 5, the outside auditor assesses the Commission's judgment call as to any claim's probability, remoteness, and materiality in relation to the Commission's financial statements.

<sup>21</sup> Though Takotna's public school has only 12 students, one teacher, and two assistants, its local enthusiasm is evident from its home page at <http://tct.schoolaccess.net>.



sharing.”<sup>22</sup> In fact, AEA’s grant agreement for this project explicitly recognized the importance of local effort:

*The Authority [AEA] requires in-kind contributions to demonstrate that the grantee and the community are committed to and invested in the proposed project. Typical in-kind contributions include, but are not limited to: land for the tank farm, the use of heavy equipment as available, lodging, etc. The Authority encourages the grantee and the community to support this project with in-kind contributions to the greatest extent possible.*<sup>23</sup>

However, despite AEA’s good intentions, no local contributions are specified in the signed copy of this agreement.

Opportunities for creative coordination were especially desirable in hindsight. To complete all rural energy projects at Takotna and six other locations, AEA had to return to the Commission a year ago for additional funding to cover an anticipated overrun of up to \$1 million.<sup>24</sup>

I detail below six opportunities for coordination and contribution that appear to have been left behind.

Opportunity No. 1: Restorative compensation  
to the community for Air Force environmental damage

As noted above, the tank farm that the Denali Commission funded at Sterling Landing was, in part, a replacement for one previously operated by the Air Force. The prior facility had a capacity almost twice that of the new one, with years of military use producing the current need for remediation.

The threshold question is whether the Air Force, rather than the Denali Commission, should have replaced the tank farm as compensation to the community for several decades of environmental damage.<sup>25</sup>

However, given the obvious need for the new tanks to cross the contaminated adjacent land, either the Denali Commission or AEA should at least have been able to negotiate an uneventful transit with Air Force engineers. And the Air Force could have facilitated all of this as part of its remediation and local contribution.

In short, the military was missing here.

---

<sup>22</sup> Denali Commission Five Year Strategic Plan (2005-2009), p. 4.

<sup>23</sup> AEA grant agreement no. 2195181, excerpt from section B(6)(c).

<sup>24</sup> Resolution No. 06-02 (Oct. 19, 2005).

<sup>25</sup> See “Situation Assessments and Recommendations for Government-to-Government Consultations between Interior Alaska Tribes and the U.S. Department of Defense on Military Impacts in Interior Alaska” by DCH Consulting and University of Alaska Resource Solutions (July 2006), [www.ecr.gov/pdf/USIECR-TCC\\_FinalRpt20060804.pdf](http://www.ecr.gov/pdf/USIECR-TCC_FinalRpt20060804.pdf).

*Opportunity No. 2:*

Local military assets (Air Force in-kind)

The Air Force is both Alaska's largest federal agency<sup>26</sup> and a major beneficiary of the new tank farm at Sterling Landing. It would have been entirely reasonable for the Air Force to contribute use of their local assets listed in Exhibit 3. Instead, for instance, AEA had to pay for its contractor to rent and service any needed heavy equipment. Again, the military was missing.

*Opportunity No. 3:*

The Federal Aviation Administration

With the radar's conversion to civilian air traffic control, the FAA is now the real user of the federal complex — and the fuel it takes to run it. The FAA is, in effect, "augmenting" its congressional appropriation with a free tank farm provided by the Denali Commission.<sup>27</sup>

Congress no doubt envisioned that Commission projects would alleviate rural poverty rather than serve as FAA support facilities. This was the time and place for the Commission to expect an appropriate contribution from one of the largest federal agencies in the state.

*Opportunity No. 4:*

In-kind from local mines

Gold mines operate at various points along the 80-mile network of local roads that start at Sterling Landing. In AEA's planning estimates, several local mines were together estimated to use the new facility for approximately the same volume of fuel as the settlement of Takotna itself (see Exhibit 2, above).

Heavy equipment and the movement of gravel are the essence of the area's gold mining. However, like the military, the miners were missing. Instead, AEA paid for its contractor to rent and service the necessary construction equipment. And AEA paid local sources over \$33,000 for the needed gravel.

While such exactions for extractions infuse a community with cash, they again suggest the potential for local contributions of in-kind.

EXHIBIT 3 AIR FORCE RESOURCES AT TAKOTNA MOUNTAIN
Heavy equipment for maintaining the runway and the 5 miles of roads between military facilities
Two-story residential geodesic dome with 18 bedrooms and associated amenities (10,180 sq. ft.)
Geodesic dome maintenance garage for heavy equipment (15,708 sq. ft.)
Stored fuel for generators, heating, and vehicles

<sup>26</sup> See Neal Fried and Brigitta Windisch-Cole, "The Federal Government in Alaska," *Alaska Economic Trends* (Feb. 2002).

<sup>27</sup> "Augumenting" is generally disfavored under federal appropriations principles. See U.S. Government Accountability Office (GAO), *Principles of Federal Appropriations Law*, 3d ed., vol. II, chapter 6(E)(1), (4).

*Opportunity No. 5:*  
The Alaska National Guard

There is something unsettling about a scenario in which (1) the largest federal agency in the state creates a “brownfield” over several decades, (2) the Denali Commission pays for one state agency to fight about it with another state agency, and (3) the state is threatening to sue a resident of tiny Takotna over the matter. This would seem to be the antithesis of government “coordination.”

However, the assumption that the five new fuel tanks had to arrive via riverbank was not a given. Both the National Guard and the Army have in recent years used their assets to airlift objects as a public service in less urgent settings. For instance, their helicopters have brought fossils out of the Brooks and Talkeetna mountains to assist the university.<sup>28</sup> A National Guard cargo plane brought a historic biplane from Montana for display in an Anchorage museum.<sup>29</sup> And the National Guard has airlifted a statue all the way from Seattle to Fairbanks in time for a city ceremony.<sup>30</sup>

Given the military’s role in creating the contamination, a request that its helicopter hoist the tanks overhead would seem reasonable. Another option might have been a request that its cargo planes deliver the tanks to either the nearby McGrath airport ( 7 air miles from Sterling Landing) or the military airstrip down the road at Takotna Mountain.

Again, the military was missing. But the point here is not to reconstruct whether any given military asset was actually available on any given day. Rather, the Commission simply needs to consider the opportunities for more creative coordination with other entities.

*Opportunity No. 6:*  
Paradigm-challenging demonstration projects

Congress has given the Denali Commission both funding and flexibility. The latter is reflected in the considerable freedom to innovate that the enabling act provides in comparison to the traditional bureaucracies. That distinctive statute signals Congress’ hope to discover some breakthroughs for the nation’s Takotnas — something beyond “just add money.”

If there’s a silver bullet out there, Congress expects the Commission to find it. However, despite some important exceptions, the Commission’s basic technological paradigm still seems to assume a diesel generator and a tank farm in every settlement.

---

<sup>28</sup> See Doug O’Harra, “Hitchin’ a ride: Army helps move ancient bones to a place in Fairbanks museum,” *Anchorage Daily News*, July 2, 2002 (five Chinook helicopters in Brooks Range); Peter Blumberg, “Geologists bring back fossil treasures,” *Anchorage Daily News*, July 3, 1992 (“Geologists combing the Talkeetna mountains for hints of Alaska’s ancient past found so many fossils in the last two weeks that a military [Air National Guard] helicopter was called in to carry the half-ton load to Anchorage.”).

<sup>29</sup> See Tom Bell, “Crown Jewel of Alaska Aviation Comes Home,” *Anchorage Daily News*, May 19, 1992.

<sup>30</sup> See editorial “Just in time,” *Fairbanks Daily News-Miner*, July 24, 2002.

On one hand, Sterling Landing and Takotna lie deep in the interior of Alaska. The isolated 80-mile network of gravel roads is effectively an island.

On the other hand, the modern regional hub of McGrath, with its utilities and daily airline service, lies only 17 miles east of Takotna and 7 miles north of Sterling Landing. (The radar dome atop Takotna Mountain is clearly visible from McGrath.)

While tiny settlements may sometimes prefer their own utilities, a geographic configuration like this suggests some possibility of connection to the regional hub for the \$3.6 million that was instead spent on four facilities to energize around 20 households.

Similarly, the continuously-monitored military facilities at Takotna Mountain suggest a feasible site for demonstrating some long-term, low-maintenance alternative technology like the Toshiba nuclear battery that the City of Galena keeps pursuing. While Galena sees the price of the demo's installation as manageable, expedited coordination of the regulatory permitting would indeed be "priceless."

Unfortunately, the new Sterling Landing tank farm is part of a \$3.6 million solution that perpetuates the paradigm of diesel dependency — with all its escalating personal and social costs. The Commission needs to aggressively discover demonstration projects that challenge this paradigm.

This, of course, squarely presents the policy issue as to whether the Commission's "legacy" program is innovative rural electrification — or primarily working through longstanding state lists of needed tank farms and diesel generators.

#### RECOMMENDATION

The commissioners should enhance their screening of proposed projects for missing players.

The Denali Commission exemplifies downsized, contracted-out, reinvented government (today's "hollow state"). It distributes an annual budget of around \$130 million with less than 20 employees of its own. However, this aspiration to be a model of leanness can be taken to the point of starvation.

The Commission currently assigns only one employee to its entire program for rural electrification. This Faustian bargain frustrates exploration of the more creative collaborations that the Commission was designed to inspire.

The Commission simply needs to hire additional in-house talent that is dedicated to the detection of "hidden" opportunities (perhaps a "director of innovation"). Relationships with entities such as the university's Resource Solutions program, the Cooperative Extension Service, and the Air Force's tribal liaison may also be helpful. At the very least, project factors like nearby federal facilities and environmental remediation should trigger further inquiry.

And once a creative staff has spotted potential players, the commissioners themselves may need to directly broker the cooperation of the missing. While this will be a new role for the commissioners, it seems quite consistent with the impressive “think tank” of statewide experts that Congress assembled in the enabling act.

AEA’s management indicates that it unsuccessfully attempted to court some military participation in construction of the tank farm at Sterling Landing. This disappointment corroborates that the collecting of contributors is best addressed by the commissioners themselves — and right from the start of their project selection process.

Program partners like AEA are expected to expedite implementation of the projects that the commissioners have selected. However, the commissioners should not by default delegate the search for other contributors. Once the commissioners have voted to fund a project, the program partner may be left in an untenable position to negotiate any meaningful participation by others.

The extent to which the Commission’s projects should be a shared effort — versus just provided — is a sensitive policy decision that currently varies with the type of facility. Nevertheless, long-run national support for this program may be encouraged to the extent that projects are perceived more as innovative partnerships and community “barn raisings” — and less as seasonal cash injections and entitlements.

*Response by Denali Commission’s management:*

The full response of the Federal Co-Chair is attached as an appendix. He indicates that “[t]he suggestion to hire additional in-house talent has potential” and that “we are currently recruiting for additional staff in grants administration and program assistance that will provide support for this program.”

ANCILLARY REPORTS

This is the first inspection of this project by the Commission’s inspector general.

This project has not been the subject of any audit reports issued by Congress’ Government Accountability Office (GAO) or the state’s Division of Legislative Audit. AEA does not have an internal auditor.

Program partner AEA is a state agency and annually obtains a single audit for itself from a CPA firm. Neither the latest audit report (for the state’s FY06) nor the associated management letter signal any matters of concern to the Denali Commission. The CPA firm considered AEA to be a low-risk auditee for purposes of federal OMB Circular A-133.

INSPECTION PROCESS

My inspection was conducted in accordance with section 2 of the Commission’s standard grant assurances, the project’s business operating plan (p. 15), sections 4(a) and 6(a) of the Inspector General Act, and the *Quality Standards for Inspections* issued by the federal Executive Council

on Integrity and Efficiency. An “inspection” is narrower in scope and procedures than the classic financial “audit.”

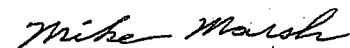
Two officers of the Takotna Community Association (the project’s owner) accompanied me during my visit to Sterling Landing. The tank farm at that location was the subject of this inspection but, to understand the project’s context, I also visited various facilities located 26 miles down the road in Takotna itself. These included the settlement’s power plant, washeteria, clinic, church, school, community association office, and fuel tanks (with the latter addressed by a separate inspection report). The local teacher showed me the school and a health aide showed me the clinic.

One of the Commission’s prior inspector generals also accompanied me during my inspection, and I appreciated the insights derived from his many years of experience.

On November 1, 2006, the Federal Co-Chair was provided a draft of this report and invited to comment on my proposed conclusions and recommendations. He was encouraged to consult his staff, AEA, and any other parties as desired in the preparation of his response. AEA was provided a copy of my draft report for this purpose.

The Federal Co-Chair’s response was received on January 17, 2007 and is attached as an appendix.

The Commission’s implementation of recommendations will be summarized in my semiannual report filed with Congress under the Inspector General Act.



Mike Marsh, Esq.  
Inspector General

Appendix

Federal Co-Chair's Response



Denali Commission  
510 L Street, Suite 410  
Anchorage, AK 99501

907.271.1414 *tel*  
907.271.1415 *fax*  
888.480.4321 *toll free*  
[www.denali.gov](http://www.denali.gov)

January 17, 2007

Mike Marsh  
Inspector General  
Denali Commission  
510 L Street, Suite 410  
Anchorage, Alaska 99501

Re: Response to draft inspection report of Sterling Landing bulk fuel storage facility

Dear Mr. Marsh:

Thank you for the recent inspection report on the Denali Commission funded Sterling Landing bulk fuel storage facility serving the residents of Takotna, Alaska. I appreciate your insightful and detailed review of this project. The Sterling Landing bulk fuel upgrade was the first stage of the full fuel storage upgrade efforts serving Takotna, Alaska; the rest of Takotna's energy needs were completed under the Middle Kuskokwim Regional Energy Project, on which you are providing separate reports. This letter responds to several of the recommendations and observations presented in your Sterling Landing draft report, and is provided for your consideration in completing the final public report on the project.

In preparing this response we met with Alaska Energy Authority (AEA) staff to discuss the issues you raise, and to consider their response. We also discussed these matters with the 611th Civil Engineering Squadron responsible for operations at Tatalina Long Range Radar Site, referred to as Takotna Mountain in your report.

Project Location

The Denali Commission, since inception, has been a careful steward of federal funding and has taken the lead among government agencies by creating policies to foster sustainability, cost containment, and proper investment of federal funding pursuant to our authorizing legislation. I believe the portion of your report "All Alaska, no matter how isolated, will have the physical infrastructure necessary to protect the health and safety and to support self sustaining economic development" implies too much emphasis on a single criteria of our process for determining Commission investment in a project. "No matter how isolated" is only one of many factors used to select projects, and is a topic under review that we will clarify in our new strategic plan to be developed this year.

Sterling Landing was one of the Commission's earlier bulk fuel projects. Our planning and funding decisions for energy projects have been refined over the last several years. Even so, the project was subject to an evaluation of our energy project policies including sustainability and cost benchmarks and complied with those policies in 2003 when it was funded. Sterling Landing conceptual design was initiated in 2001, final design in 2002,

Appendix  
Federal Co-Chair's Response

Sterling/Takotna Bulk Fuel IG Inspection Response

Page 2 of 5  
1/17/2007

and construction funding was provided in early 2003. Sterling Landing construction funding was substituted for the Stony River project when it was determined the Stony River project could not meet cost containment and/or energy policy standards at that time, on a stand-alone basis.

Facility Users

Bulk fuel facilities have substantial operating and maintenance (O&M) costs as well as Renewal and Replacement (R&R) costs. The Business Operating Plan (BOP) details these anticipated costs and projects annual payments to the O&M and R&R funds, funded generally on a dollars per gallon of through-put basis. The short-term storage of U.S. Air Force (or now FAA) fuel effectively more than doubles the fuel through-put of the facility, thus substantially reducing the per-gallon surcharge for all. Likewise, the miners' fuel purchases increase the through-put for all. In short, the short term storage of fuel by the U.S. Air Force/FAA increases the sustainability of the Sterling Landing Denali Commission funded project.

Expenditure Traceability and Controls Over Purchases

I was pleased to see that review of the traceability of expenditures and control over purchases which were managed by the Denali Commission funding recipient and partner agency, Alaska Energy Authority (AEA), were all found to be generally consistent with the Commission's policies and procedures. The Commission continues to be proud to have the AEA as a partner agency.

Public Complaints

I respectfully request you consider removing the terms "elderly" and "senior" in reference to the resident of Takotna identified in your report. The resident's age has no bearing on the actions that allegedly occurred.

The Commission is aware of the pending regulatory dispute concerning the disturbance of contaminated soil at the site adjacent to the new facility. As stated in my September 11, 2006 response to previous inspection reports, the Commission agrees with your recommendation to add standard financial assistance award language to require grant recipients to notify the Commission of any such occurrences for all future projects.

Opportunities for Coordination and Contribution

The Commission, in coordination with other federal funding agencies and our program partners, works actively to encourage community contributions. However, few small communities have substantial cash resources to contribute to a project of this magnitude and may not own heavy equipment or local housing to be contributed on an "in kind" basis. In this case, the value of the project site is a significant local contribution.

The Sterling Landing bulk fuel upgrade project was the first stage of the full fuel storage upgrade efforts for the Takotna area. It was completed within the original budget, and did not require additional project funds. I request you remove the reference to AEA returning to the Commission for additional funding a year ago to "complete all rural energy projects at Takotna and several other locations."



## Appendix

### Federal Co-Chair's Response

Sterling/Takotna Bulk Fuel IG Inspection Response

Page 3 of 5  
1/17/2007

*Opportunity No. 1: Restorative compensation to the community for Air Force environmental damage*

Your recommendation that the Denali Commission and the Department of Defense should coordinate more closely in search of synergy is valid. We have initiated discussions with the 611<sup>th</sup> Civil Engineering Squadron to foster such opportunities to partner for future projects near Air Force Sites.

*Opportunity No. 2: Idle military assets (Air Force in-kind)*

As is often the case on Commission projects, our partner, the AEA, worked collaboratively with the U.S. Air Force who allowed the use of their runway for flying project materials to the site. The other assets listed in your report are not necessarily idle: the residential geodesic dome is the housing for the minimally attended radar site and visiting technicians. It is operated and maintained by contractors to the Air Force and the remaining assets are part of their responsibilities. That contract has specific tasks and hours of work. Any changes to that schedule must be made by change order.

*Opportunity No. 3: The Federal Aviation Administration*

The FAA, like Air Force and the other users in the area, benefits from fuel delivered to the tank farm as a pass-through operation, for which they pay a surcharge for delivery of fuel to the final storage area. I do not know whether the Air Force or the FAA is the entity paying for fuel the FAA uses in this case, but the fuel surcharge helps support the operations and maintenance of the tank farm. We should always seek opportunities for collaboration and co-funding, and we will be more attentive to those possibilities in the future.

*Opportunity No. 4: In-kind from local mines*

I appreciate your suggestions regarding the volunteering of time and equipment for projects. While we do look for these opportunities, they are not typically available. Reliance on equipment and labor donations can create schedule challenges for contractors and may affect liability for volunteers operating heavy equipment on job sites.

*Opportunity No. 5: The Alaska National Guard*

I appreciate the suggestion to engage Department of Defense flying assets as part of Denali Commission projects. The Air Guard, as part of the Department of Defense does employ C-130's and other resources to assist civilian projects, but only in extreme life-threatening emergencies, or after receiving approval through rigorous programs such as Innovative Readiness Training (IRT), and assurances that military resources are not unduly competing with private carriers. The largest IRT program in the nation is Alaska Road, which has employed guardsmen and reservists every summer since 1998 to construct a new road connecting Metlakatla and the north shore of Annette Island. This project provides important remote construction and engineering training for the military; and will provide the residents of Metlakatla with easier access to Ketchikan and other economic benefits.

The Commission recognizes that our investment in critical community infrastructure is part of the larger, ongoing efforts by many federal entities to address Alaska's needs. In this instance, and in opportunities 1 and 2 above, our best way to proceed is to engage the Alaskan Command and the Department of Military & Veteran's Affairs on an annual

Appendix  
Federal Co-Chair's Response

Sterling/Takotna Bulk Fuel IG Inspection Response

Page 4 of 5  
1/17/2007

basis to compare proposed capital projects, and to determine if military resources can be applied to Denali Commission projects. Thanks to your initiative, we met with the 611<sup>th</sup> Civil Engineering Squadron's Tribal Liaison, and we should have more beneficial partnerships on projects in the future as a result of our combined efforts.

*Opportunity No. 6: Paradigm challenging demonstration projects*

I take issue with your statement that "the Commission's technological paradigm seems all too frozen at a diesel generator and a tank farm in every settlement..." On the contrary, we work closely with the Alaska Energy Authority, Alaska Village Electrical Cooperative, REAP (Renewable Energy Alaska Project), and the Alaska Wood Energy Development Task Group to find and carry out innovative solutions to rural energy needs.

The Toksook Bay/ Tununak /Nightmute project was an excellent example of innovation and collaboration. Instead of a major diesel generator and tank farm in each remote community, the three are to be connected by interties with Toksook Bay as the hub. Further, the Toksook Bay generator is a combination of diesel and wind power. And the facility was partially funded by the local Alaska Community Development Quota Program (CDQ) organization, allowing Denali Commission funds to be leveraged elsewhere.

Sterling Landing/Takotna will always require community storage tanks to supply fuel for motor vehicles and heating even with an alternative power supply system. Even if a 17 mile intertie were connected to McGrath (~\$7 to 9 million), there would need to be a standby power plant at Takotna.

As the Middle Kuskokwim Regional Energy Project nears completion, we will convene a "lessons learned" gathering of all the parties to debrief the overall project and disseminate the results of everyone's efforts.

Response to Final Recommendation in Report

The suggestion to hire additional in-house talent has potential. Historically the energy program has received sufficient funding to support being more than one-deep in that program, and in fact we are currently recruiting for additional staff in grants administration and program assistance that will provide support for this program. The Commission is also actively working to address the needs for program management either through detailed employment or a Commission new hire for the energy program this year. In addition, we are moving to an energy project advisory model that, will likely be similar to the Transportation Advisory Committee, for project selection and will begin by looking at alternative energy project proposals this year. We have also contracted to perform a program evaluation to help us develop meaningful measures of the Commission's progress and to help shape our strategic plan for future work.

As you are aware, the Commission is subject to a 5% limit on administrative expenses and, as Congress intended, seeks to be a model of efficient and effective government through partnerships. The Commission strives to find the balance between efficiency and "leanness taken to the point of starvation." This is made all the more difficult with the Commission's reliance on annual appropriations which can vary widely. I look forward

Appendix  
Federal Co-Chair's Response

Sterling/Takotna Bulk Fuel IG Inspection Response

Page 5 of 5  
1/12/2007

to your continued observations and recommendations on how best to achieve this balance.

Thank you for your continued review and inspection of Commission projects. I appreciate your attention to detail, and the opportunity for the Commission to respond to your findings. We will continue to refine our processes to make them more efficient and effective, and your suggestions will undoubtedly contribute to our success.

Sincerely,



George Camelo  
Federal Co-Chair