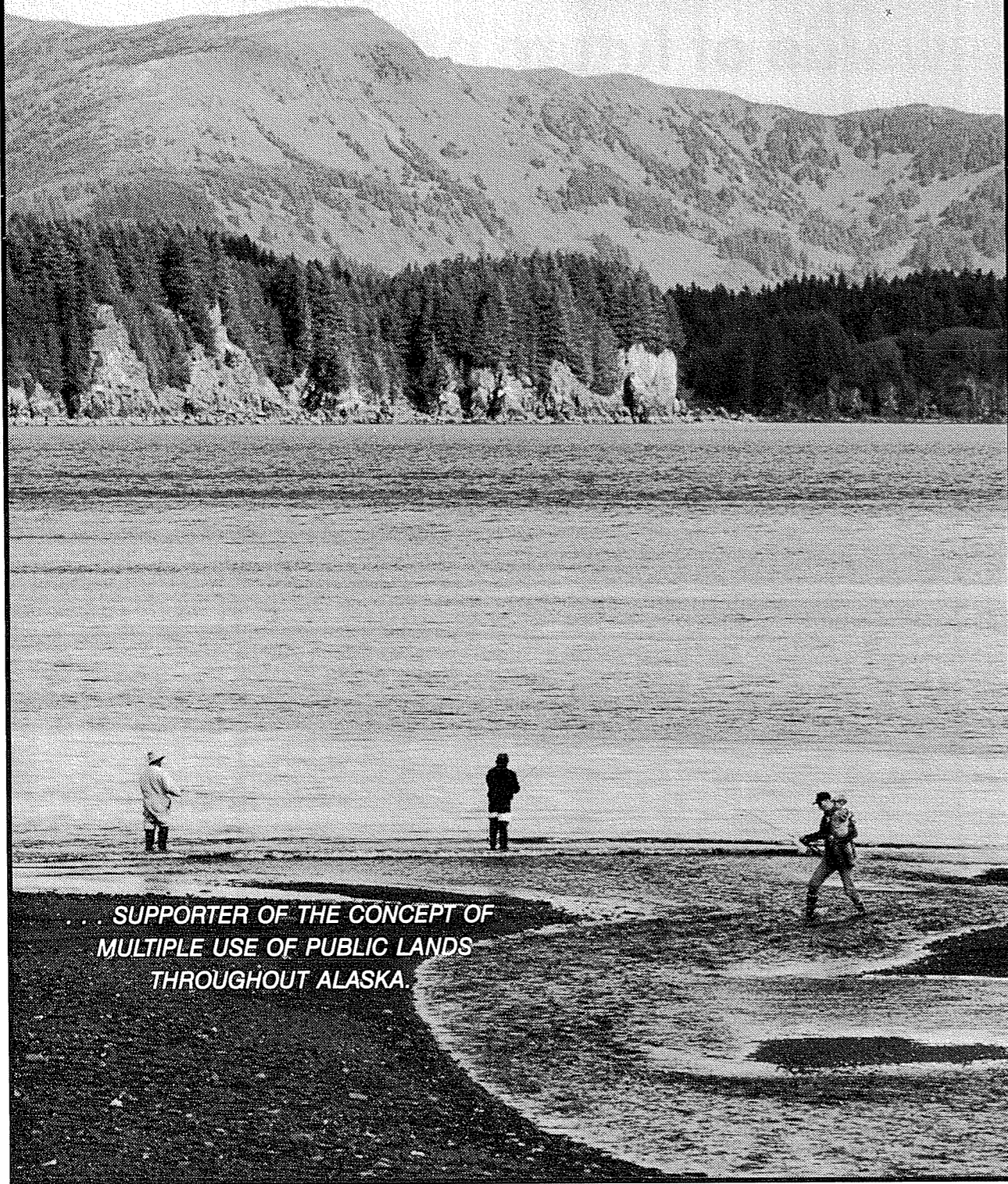


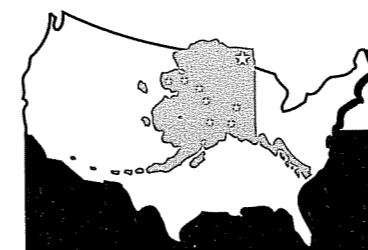
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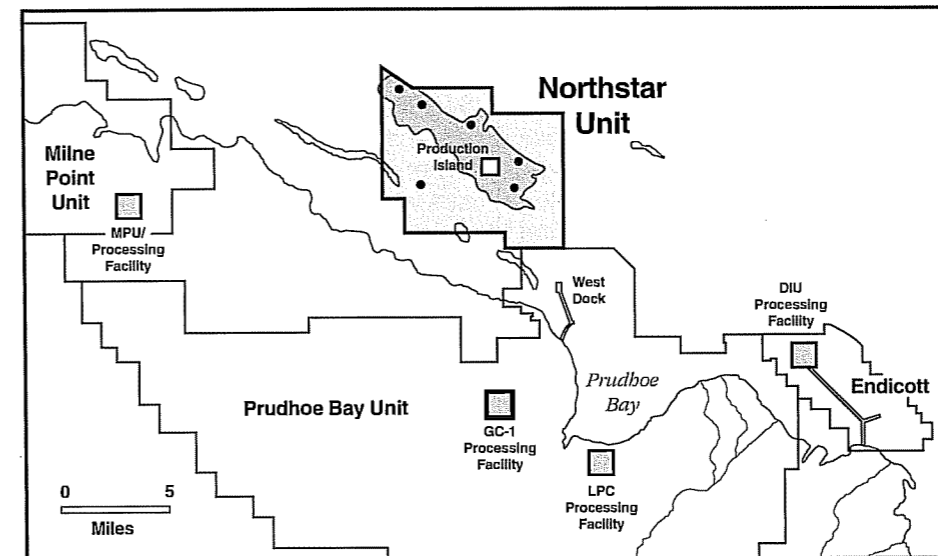
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Resource Review

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Northstar oil offers Alaskans new jobs, future opportunities

by
Frank Baker

Pending legislative approval and acquisition of necessary permits, construction could begin in 1997 on the Northstar oil field near Prudhoe Bay, with first production following in 1999, injecting about \$1 billion into the state's economy and ushering in a new era of in-state oil facility manufacturing.

Governor Tony Knowles and BP Exploration reached agreement March 21 on a proposal to develop Northstar, an offshore oil field in the Beaufort Sea. With about 130 million barrels of

recoverable oil, Northstar lies in state and federal waters about six miles north of Prudhoe Bay. It was originally leased in 1979 by Amerada Hess, but never developed because the company deemed it uneconomic.

See related article, page 3

"Northstar has been in the deep freeze for 16 years because it's been too expensive to develop," said Governor Knowles in a March 21 release. "Innovative technology and cost-cutting by BP and tough negotiating by the state will bring this important

project on line at a time when Prudhoe Bay is declining," he said.

Under terms of this agreement, the State would receive a 20 percent royalty, which is the state's ownership share of oil and gas. The state could also collect an additional 7.5 percent in supplemental royalties and taxes as oil prices increase. That will generate at least \$430 million from royalties and taxes, including an estimated \$37 million in supplemental royalties to the state treasury.

In turn, the agreement eliminates the current net profit terms of the leases. Under net profit terms, a company shares its profits after its development costs. Under the original terms of the 17-year old Northstar lease, which envisioned oil prices double or triple those of today, Alaska was slated to receive about 90 percent of net profits. But through those original terms, state officials estimate Alaska would not receive net profits until near the end of the field's life, in about 2008. With the new agreement, Alaska would receive its revenues immediately upon production in 1999.

Other terms:

- Use it or lose it provision: BP must develop the field within a year or return the leases and the wells to the state;
- BP also would pay \$31 million in ad valorem taxes to the North Slope Borough and about \$260 million in taxes and royalties to the federal government;
- BP adopts a program to hire more Alaska residents and use Alaska firms in the fabrication of modules for the project, valued at \$40 to \$50 million, most likely in Anchorage. Those facilities would otherwise be built in Canada or

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Message from the Executive Director
by Becky L. Gay

From underground to 30,000 feet

Being underground for the first time was awe-inspiring, especially in the Alaska-Juneau Mine (A-J), the Queen of all gold mines in Alaska. Comparatively speaking, if the A-J was a ship, it would be the star of the fleet. It is a sleeping giant, deep in a mountain right in Juneau. The A-J is a subsurface masterpiece, a candidate for the eighth Wonder of the World sort of thing.

The A-J started up in 1891 and is the single largest gold producer in Alaska's history. Historically, 54% of all lode gold production in Alaska came from the A-J. That's a pretty impressive slice of a pie chart for a now dormant

gold mine, still promising riches beyond belief.

Mining may be considered non-renewable, but the A-J has a sustainability about it that is impressive. For an operation which will impact only about 20 surface acres (of prior tailings/rock dump), bring 400 good-paying resident jobs to Southeast Alaska and spin off some of the best building rock in the state while mining gold, the A-J project seems like a really positive example, educational and economic.

Much to their credit, while working through the rigorous permitting effort, upgrading and cleaning up the existing mine, along with hours of public outreach and technical problem-solving, Echo Bay Mines has also spent time and money making educational mine trips available for the local residents, young and old alike.

To the School of Mines, at the Southeast branch of the University of Alaska, the A-J provides the premier "hands on" experience. No wonder that to Juneau school kids, it's the number one choice for field trips. Nothing in a classroom can breathe life into history like donning a hardhat and miner's light, rubber boots and safety gear to go underground into the massive A-J.

It's a top field trip for many adults too! I had been wanting to go for a few years, but was nervous about the underground experience. Trusting my guides, I followed. Even to my untrained eye, the rock looked good and stable. Leaving the portal, I stopped looking back once daylight was gone. I didn't have enough time to go into the farthest reaches of the mine, but I got an eyeful, traveling down tunnels in the crew vehicles known as "mantrips."

The guides even honored my request to turn off our headlamps for a moment while standing in the cavernous

hoist room. In that moment, feeling and seeing the deepest darkness imaginable, it was hard not to think of all those miners who went before us in this very tunnel. Ghosts notwithstanding, it was easy to imagine those long-gone miners "rolling over in their graves" to see what Echo Bay is going through to re-open the mine.

The A-J is about as great as it gets. It's a true mountain of gold, the inner works of 200 miles of tunnels represent human endeavor the likes of which I can hardly imagine. The A-J, in its glory days, was the biggest and best employer in Juneau. It still can be.

Spending \$90 million and not having one permit seems excessive, even in America's wildest eco-extortionist dreams. It's apparent to even the smallest child that the A-J is already a mine, not a new development. The A-J awaits re-opening, being brought up to modern standards of production and safety by the good men and women of Echo Bay.

In production, the A-J will once again bring stable year-round jobs to Juneau. If it weren't for new money circulating throughout the economy, most people wouldn't even know there is a world-class mine right under their noses. Since most of the work is underground, aesthetics is not an issue.

As I flew home on Alaska Airlines, I reflected on the range of technology I had experienced in just five hours to allow me to go from deep within a mountain to 30,000 feet altitude. It is simply amazing.

Later, as I arrived home safely, I couldn't stop thinking about the A-J. Best of all for Alaskans is that when the mine is producing, more Alaskans will be able return home at night and be with their families after a hard day's work, instead of returning to a bunk in a camp or a lonely berth at sea.

The Resource Development Council (RDC) is Alaska's largest privately funded nonprofit economic development organization working to develop Alaska's natural resources in an orderly manner and to create a broad-based, diversified economy while protecting and enhancing the environment.

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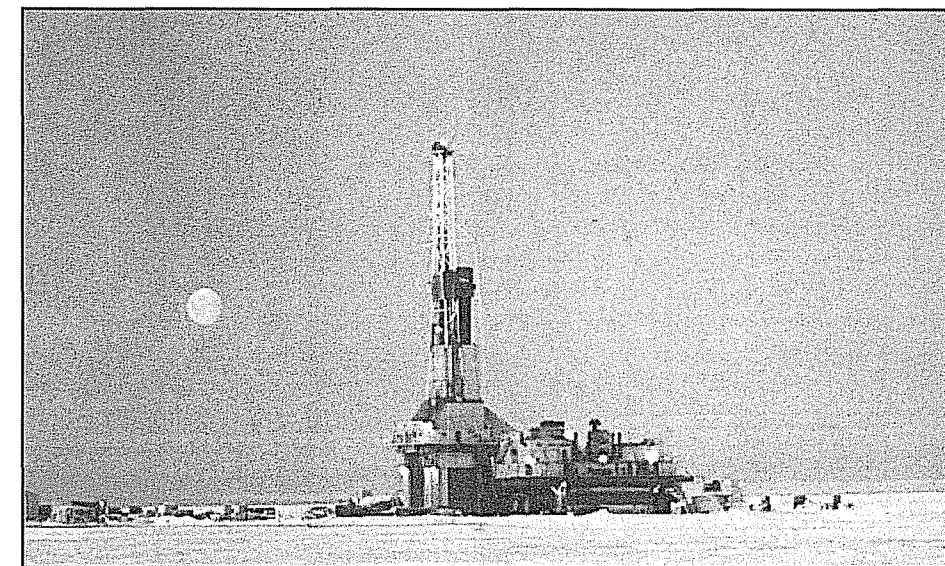
State must share in the risks to reap rewards of future oil development

Alaska has long-term opportunities on the North Slope with an estimated 8.4 billion barrels of undiscovered oil and 6 billion barrels of known oil reserves, but the state must share in the risks if it wants to reap the rewards of future oil and gas development, the state Oil and Gas Policy Council announced earlier this month.

The 14-member council presented its recommendations to Governor Tony Knowles after a full year of reviewing regulations, fiscal policies and leasing strategies affecting future oil and gas development. The Governor established the council last year, directing the high-level group to recommend ways for the state to be a better partner with industry in creating jobs, promoting future development and helping offset the decline in Prudhoe Bay production. It is composed of commissioners, legislators, oil company executives, labor representatives and business leaders.

"From day one, we have remained focused on those aspects Alaska can change," said former state Natural Resources Commissioner Esther Wunnicke, who chaired the council. "We cannot do anything about the amount of oil and gas, where it is located and what the market price will be. But we can structure our fiscal, leasing and regulatory policies to promote development where it otherwise might not occur, create jobs and revenue for Alaska and protect the environment."

The council recommended mainline production from existing oil fields such as Prudhoe Bay continue operations under the current royalty and regulatory structure. Prudhoe Bay, Kuparuk, Endicott and Point McIntyre currently account for 98 percent of Alaska's petroleum revenue. But the council concluded Alaska needs to change the way it does business to promote future development of marginal fields and enhance recovery efforts of producing



Alaska's North Slope oil fields account for 20 percent of America's domestic oil production.

fields. The report called on the Governor and the Legislature to consider investment tax credits for enhanced oil recovery projects, targeted royalty relief for marginal, mature and heavy oil production and exploration incentive credits.

The council also recommended leasing changes that would reduce the time period for which leases are offered, provide work-commitment bids in place of the more traditional bonus bids and increase the statutory maximum lease size from 5,760 acres in situations where a well-defined prospect can be easily covered in a single tract.

"It's clear to everyone that as partners, we can do more and go further in this age of enhanced oil recovery and development of smaller, marginal fields," Knowles said at a news conference this month on the council's recommendations. "As partners, Alaskans recognize we must accept some risk if we also want to share in the rewards. As partners, industry recognizes that public policy, which includes stewardship of the land and jobs for Alaskans, is an integral part of the process."

Northstar...

(Continued from page 1)

the Lower 48.

Since Northstar reserves are beyond the reach of directional drilling from shore, BP proposes developing the reservoir from Seal Island, a small gravel island in about 40 feet of water. BP would expand the island to five acres, using concrete matting for slope protection. A single pipeline with offshore and onshore segments is the most practical option for transporting oil ashore. Once onshore, the pipeline would be routed above ground to the trans-Alaska pipeline.

While Northstar will feature the first buried subsea pipeline in the Alaskan Beaufort, this technology has been tested and proven in the Canadian Arctic. The pipeline will be buried well below ice scour, and most of it will be inside the barrier islands, where scouring is limited. It will also be protected by state-of-the-art systems.

Cominco to expand Red Dog production, deposit may be world's largest

Cominco Alaska Inc., plans to expand zinc and lead production at the Red Dog Mine in Northwest Alaska by more than 50 percent, and by the year 2000 the mine is expected to produce more than 1 million tons of lead and zinc concentrate annually.

Accounting for five percent of the world's zinc production, Red Dog now produces about 620,000 tons of lead and zinc concentrates each year.

Recent exploration programs have led geologists to double previous estimates of zinc and ore reserves in the Red Dog district, perhaps making Northwest Alaska the richest area on Earth for zinc and lead reserves. Cominco hopes that a new exploration program this summer will add even more reserves.

Cominco operates the Red Dog mine in partnership with NANA Regional Corporation, the landowner.

Speaking before a Resource Development Council breakfast forum in Anchorage last month, John Rense, NANA's Senior Operating Officer, pointed out that a new discovery last summer near the mine doubled Red Dog's ore body. Rense explained that the original ore body has about 68 million tons of ore reserves remaining at 19 percent zinc content. The new discovery has an estimated 85 million tons of ore at 13.7 percent zinc content.

Rense, a former RDC president, reported it will cost between \$150 million to \$175 million to expand Red Dog's production and ore transportation infrastructure. Rense believes the potential is good for new zinc and lead discoveries in the Red Dog region where NANA owns 72 square miles of land around the mine. As infrastructure expands near the mine, there is an increasing

likelihood that some of the new discoveries will be developed.

Despite the huge and growing reserve base at Red Dog, Cominco has yet to make a profit at the mine after investing more than \$500 million on exploration, development and production.

Shortly after production began at Red Dog, zinc prices tumbled from 70 cents a pound in July 1990 to 40 cents a pound one year later. Although prices haven't improved much in subsequent years, operations at the mine are running more efficiently and production has increased, lowering unit costs. Moreover, zinc prices are expected to show modest gains in the next year.

Cominco could turn a profit this year, but it has a long way to go to recoup its investment. The company hopes that by sharply increasing production at Red Dog, it will lower unit costs, allowing the mine to be more profitable even if prices remain flat.

Cominco will be attempting to lower costs by 2 cents to 3 cents a pound. Each 1-cent improvement in prices or reduction in costs adds about \$4 million annually to Red Dog's revenues.

Rense noted that Red Dog is a key component of the Northwest Alaska economy, previously one of the poorest in Alaska. Half of Cominco's employees are NANA shareholders from local villages.

As production increases at the mine, at least 70 permanent staff will be added to a work force of about 400. Cominco spends about \$13 million on payroll, \$30 million annually for fuel and supplies and pays NANA a \$4 million royalty, of which 70 percent is paid to other Native regional corporations. The company also pays \$3 million a year in local and state taxes.

Study evaluates forest law

(Continued from page 5)

program to collect data on fish habitat and channel conditions from streams in forested lands of coastal Alaska. The objectives of the monitoring program were to determine whether fish habitat conditions have changed as a result of forest practices and whether habitat quality has been significantly affected by timber operations.

From 1992 to 1994, stream surveys were conducted in selected timber management areas of Southeast Alaska, the Kenai Peninsula and Afognak Island. Stream basins with varying levels of timber harvest were surveyed during each year, and annual surveys were repeated on several streams.

The results of the Pentec study are based on three years of data that was collected within one to seven years following initiation of timber harvest activities. The data was collected from over 27 miles of streams in 10 different basins.

The report finds the only change that is certain is the increase in large woody debris (LWD) from the riparian buffer in some logged streams as a result of blowdown. The increased LWD is not expected to have a negative effect on fish habitat because the channel changes are local and the amount of stream length affected is small.

The study found that other habitat conditions have changed in stream reaches of both logged and unlogged basins, but the magnitude and direction of these changes are not discernible at this time. The monitoring results suggest no large habitat disturbances have occurred to date and that any disturbances that may have occurred are relatively subtle. None of the changes have occurred at a level large enough to affect fish productivity.



Thoughts from the President by Elizabeth Rensch

Legislature should pass Northstar legislation

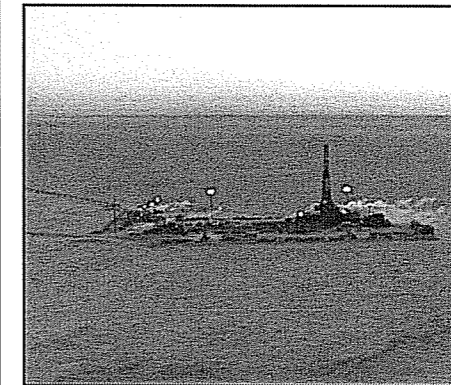
Decision on OCS Lease Sale 149 is disappointing

In an era of budget cutting and declining state revenues, the recently negotiated Northstar pact is a refreshing proposal that promises to generate a much needed boost to Alaska's economy. The economic incentives provided by a bill Governor Tony Knowles has transmitted to the Legislature to authorize, approve and ratify the amendment of the Northstar oil and gas leases will make it possible for BP Exploration (Alaska), Inc. to invest in the technology to develop the field.

Development of Northstar will generate hundreds of millions of new dollars into the state treasury from royalties and taxes and create hundreds of new jobs. Those jobs will go to Alaskans, as will the contracts to build oil field modules, similar to the large sealift-size modules that in the past were assembled in the Lower 48. All of this activity will generate new economic growth throughout the private sector.

Once Northstar is brought into production and its pipeline is delivering oil to the Trans-Alaska Pipeline, other known oil fields and prospects in the area will become more attractive. With the expansion of infrastructure, it is very possible that Northstar will lead to other development opportunities.

With only five weeks remaining in this legislative session, it is very important that lawmakers take appropriate steps to consider and vote on the Northstar proposal. For the benefit of all Alaskans, the Legislature should pass legislation allowing Northstar to move forward.



With expansion of infrastructure, development of new fields along Alaska's oil frontier will become more likely.

The Governor is to be applauded for his efforts to amend the Northstar leases to promote development where it otherwise might not occur, create jobs for Alaskans and revenue for the state.

While the Governor has been working hard to encourage oil and gas development on the North Slope and bring Northstar on line at the earliest possible date, his recent decision opposing OCS Lease Sale 149 in Cook Inlet was a disappointment. In recent press accounts, Governor Knowles noted "it was a tough decision and it was close, but I felt that the weight of the evidence was preponderantly on the side of not having this sale for this area."

RDC respectfully disagrees with the Governor as the oil and gas industry has a solid, proven track record of successful and environmentally-responsible exploration, development and production in Cook Inlet over the past 35 years. There have been countless hours

of testimony and more than 50 public meetings held in 12 communities with local residents and stakeholder groups. In response to concerns expressed by local fishermen and others in the communities of Homer, Nanwalek, Port Graham and Ninilchik, some 17 sensitive tracts have been removed from the lease sale, including the Shelikof Straits.

While a well-organized opposition has captured the media spotlight, there are many residents who support the sale, which would be the first in the area in 14 years. Moreover, the Kenai Peninsula, Kodiak Island and the Lake and Peninsula Boroughs supported a tri-borough agreement identifying key issues to be addressed before the sale proceeded. In response, the U.S. Minerals Management Service added stipulations to address the issues identified by the Boroughs.

RDC strongly supports OCS Lease Sale 149 and encourages Interior Secretary Bruce Babbitt to allow the sale to proceed as planned.

Meanwhile, RDC has been working hard on a wide variety of issues impacting Alaska's basic industries. Key regulatory issues the staff is now working include the Draft 1996 Section 305(b) Water Quality Assessment Report, the 303(d) on impaired water bodies list, watershed management planning, contaminated sites regulations, newly-proposed mixing zone regulations, Alaska test methods for underground storage tanks, NPDES and wetlands permitting. Other issues include a host of legislative initiatives on oil, gas, timber, land and general access. RDC has also written the EPA urging it to move forward with a proposed rule that would allow the federal agency to study the disposal of mine tailings from the A-J mine near Juneau into Stephens Passage. Anyone in the regulated community wanting to get more involved in these issues should call RDC.

Court orders new try at timber settlement

Judge gives timber interests seat at table in AWRTA lawsuit negotiations

The judge presiding over the lawsuit between the Alaska Wilderness Recreation and Tourism Association (AWRTA) and the U.S. Forest Service has ordered all parties involved in the suit to negotiate a new settlement. As a result, the timber industry will meet at the negotiating table with the Clinton administration and AWRTA to reach a new settlement on the lawsuit that has tied up 282 million board feet of timber sales in the Tongass National Forest.

The Alaska Forest Association (AFA) had intervened in the lawsuit, but was excluded in the original negotiations — between the Forest Service and AWRTA — which led to the proposed settlement. AFA opposed the agreement, calling it a “sham” which netted the timber industry only a fraction of the timber that had been cleared for sale through a multi-year NEPA process.

“It sounds to me like the judge is saying if there’s going to be a settlement, it ought to be a settlement that takes into account everyone’s concerns,” said Jack Phelps, Executive Director of AFA.

In ordering all parties to the table



A lone logger works on a tree in the Tongass National Forest where two-thirds of all forested lands are closed to logging.

to negotiate a new settlement, the Court expressed concern that the interests of timber dependent families and communities were not given adequate consideration in the proposed settlement.

Members of the Senate and House Leadership recently filed an Amicus Curiae brief strongly criticizing the original settlement and demanding a new round of negotiations that would bring loggers to the table.

“We got what we asked for,” said Ketchikan Representative Bill Williams.

His comments were echoed by House Speaker Gail Phillips who confirmed “this is what we have been working so hard to achieve — the chance to negotiate a fair settlement.”

“The working families of Southeast are fighting for their economic survival,” said Wrangell Senator Robin Taylor. “The Court realized that a fair settlement with all parties involved is necessary to help ensure the economic future of Southeast Alaska,” Taylor added. The Wrangell senator said the Court’s decision basically accepted the Senate and House leadership’s position and “verified that there are serious problems with the position that the Governor supported.”

The proposed settlement freed only a fraction of the timber held hostage by the AWRTA lawsuit. Due to the economics of access and logistical considerations, only 46 million board feet of the 282 million board feet of timber would have been feasible to harvest.

If the three parties — USFS, AWRTA and industry — cannot agree on a new settlement, the issue would then be decided by the Court.

Knowles meets with timber executives

Governor Tony Knowles met with officials of Louisiana Pacific, the parent company of Ketchikan Pulp Company, in a three-hour “get acquainted session” earlier this month to exchange goals and issues.

“It is a policy of my administration to tell people who invest in Alaska that we’re open and ready for business,” Knowles said of his meeting with Mark Suwyn, Chairman and CEO of Louisiana Pacific and Ralph Lewis, President and General

(Continued to page 5)



From the upper deck of a ship, KPC’s Steve Connelly surveys 5 million board feet of finished lumber from the company’s sawmills at Ward Cove and Metlakatla. With an annual payroll of \$41 million, KPC employs 900 people at its pulp and sawmill operations.

Multi-year study concludes Alaska’s Forest Practices Act protects fish, stream habitat

A recent multi-year study has concluded that modern logging operations adhering to the guidelines of the Alaska Forest Practices Act (FPA) do not have an adverse impact on fish habitat and stream channel conditions.

Prepared by Pentec Environmental for Sealaska Corporation and the Alaska Forest Association, the report evaluates the effectiveness of the FPA in protecting fish habitat and channel conditions. The report consolidates the findings of 1992, 1993 and 1994 monitoring studies and is part of a continuing investigation that will provide information on FPA effectiveness in both the short and long term.

The FPA specifies best management practices (BMP) for loggers to follow in preventing significant adverse effects from timber harvest activities on habitat and water quality. In 1992, Pentec was contracted to develop and implement a monitoring

(Continued to page 6)



On Montague Island, Koncor Forest Products will leave over 7 million board feet of timber, valued at more than \$5 million, in buffer zones on private lands where it is harvesting timber. The buffers are required by the Alaska Forest Practices Act. The buffer zone pictured above cuts through a timber harvest area on Montague Island in Prince William Sound.

KPC seeks contract extension, meets with Knowles

(Continued from page 4)

Manager of Ketchikan Pulp.

“I think we had a very productive meeting,” Knowles said. “He outlined to me some of his thoughts in terms of their role in Alaska. We got down to some very specific issues relating to the contract extension, the Tongass bill that is being discussed in Congress, as well as some environmental concerns that have been brought up concerning renovation of the plant. These are all important issues to be discussed and I think there’s a lot of common ground where we can work with one of Alaska’s lead industries.”

Ketchikan Pulp, whose 50-year timber supply contract expires in 2004, is seeking congressional approval for a 15-year extension to the contract. The company needs the extension to secure financing for \$200 million in improvements to its Ketchikan facilities. Most of the improvements would be directed at upgrading environmental controls. At least \$155 million would be spent to eliminate chlorine from the pulping process and extend the outflow of plant effluents farther from Ketchikan.

The company has been told by its lenders that the eight years remaining on its existing contract is not sufficient to back \$200 million in loans and that a contract extension would

be necessary before a commitment could be made on the capital improvements.

Environmentalists strongly oppose any contract extension and Governor Knowles has not yet taken a position on the issue.

Ketchikan Pulp spokesman Troy Reinhart acknowledged the company is in for a fight in Washington where only Congress can authorize a timber contract extension longer than 10 years.

“Everything on the Tongass is a long uphill battle,” Reinhart said, adding that the timing of contract extension legislation may be crucial. Without the extension, Reinhart said “it’s an open issue” about what will happen to the Ketchikan pulp mill and its two sawmills. The company is the biggest provider of well-paying, private sector, year-round jobs in Southeast Alaska.

With the Clinton administration locked in a furious battle with the Alaska congressional delegation over the level of logging in the Tongass, the contract extension issue may have to wait until after the federal elections in November.

“The big question is who sits down there on Pennsylvania Avenue,” Reinhart said.



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**April 25: Forest Health Update: Insect & Disease
Conditions in Alaska**

Jerry Boughton, Entomologist, U.S. Forest Service
and

**Extending Ketchikan Pulp Company's
Timber Supply Contract**

Troy Reinhart, Public Relations Manager, Ketchikan Pulp Company

**May 2: Whittier Road Access: A Development
Forecast for Prince William Sound**

Dave Morgan, City Manager, Whittier

**May 9: Entrepreneurship, the Alaskan
Economy and Environment: A
Personal Philosophy on Survivorship**

Dale R. Lindsey, CEO/President, Harbor Enterprises, Inc., Seward

May 16: Report on the Nineteenth Alaska Legislature

Senate President Drue Pearce and House Speaker Gail Phillips

**May 23: Placer Dome U.S., Inc.:
The Mine Development Process**

Jay K. Taylor, President & CEO, Placer Dome U.S., Inc.