RESOURCE REVIEW
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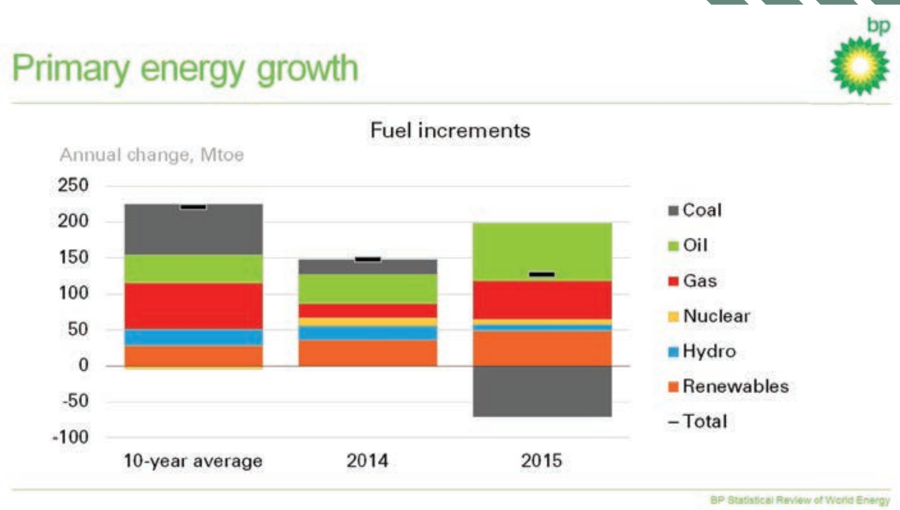
The world of energy going through profound change

The 65th edition of the BP Statistical Review of World Energy, featured at the Resource Development Council's Annual Membership Luncheon in Anchorage June 30, revealed a year in which global energy consumption slowed further and the mix of energy sources shifted towards lower-carbon fuels.

The world of energy is going through a period of profound change, reported keynote speaker Mark Finley, General Manager for Global Energy Markets at BP. In 2015, global demand for primary energy grew by only 1%, significantly slower than the ten-year average, Finley noted. This reflected continued weakness in the global economy and lower growth in Chinese energy consumption as the country shifts from an industrial to a service-driven economy.

On the supply side, technological advances have increased the range and availability of different fuels. The U.S. shale revolution has unlocked huge swathes of oil and gas resources, and rapid technology gains have supported strong growth in renewable energy. Natural gas and oil recorded solid growth in 2015, while global demand for coal fell.



While coal remained the second largest fuel by market share, global consumption fell by 1.8% last year. The decline in consumption was entirely accounted for by the U.S. (-12.7%) and China (-1.5%).

Mark Finley presented the 65th annual edition of the BP Statistical Review of World Energy before a crowd of nearly 800 at RDC's Annual Membership Luncheon in Anchorage June 30.

Finley reported that prices for all fossil fuel energy fell last year, prompting adjustments in the energy markets, boosting demand in some markets – most notably oil which gained market share for the first time since 1999 – and curtailing supply and shifting the fuel mix in others.

Finley noted that carbon emissions from energy consumption stalled in 2015. He said last year recorded the slowest growth in emissions in nearly a quarter of a century (aside from immediately following the financial crisis).

Global primary energy consumption increased by just 1% in 2015, similar to growth in 2014 (+1.1%), but much slower than the ten-year average of 1.9% a year.

Oil remained the world's leading fuel, accounting for 32.9% of consumption.

Coal remained the second largest fuel by market share (29.2%), but was the only fuel that lost global market share in 2015.

Natural gas market share of primary energy consumption was 23.8%.

Energy consumption growth was below the ten-year average for all regions except Europe and Eurasia.

Although emerging economies continued to dominate the growth in global energy consumption, growth in these countries in 2015 (at 1.6%) was again well below its ten-year average rate. Emerging economies now account for 58.1% of global energy consumption.

Energy consumption in China grew 1.5% in 2015, the slowest rate in almost 20 years. Despite this, China remained the world's largest growth market for energy for a 15th consecutive year.

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Mark your calendars!

- Thursday breakfast forums begin September 15 at the Dena'na Center, Anchorage. Register online beginning September 8th.
- RDC's 37th Annual Alaska Resources Conference will be November 16-17 in Anchorage. Sponsorship and exhibitor registration will be available online beginning September 6th.

RESOURCE DEVELOPMENT COUNCIL

Growing Alaska Through Responsible Resource Development

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From left to right are Kati Capozzi, Carl Portman, Marleanna Hall, and Karen Lane.

RESOURCE DEVELOPMENT COUNCIL

is an Alaskan, non-profit, membership-funded organization comprised of individuals and companies from Alaska's oil and gas, mining, timber, tourism, and fisheries industries. RDC's purpose is to link these diverse industries together to encourage a strong, diversified private sector and grow Alaska through responsible resource development.

GRADES ARE OUT ON 29TH AK LEGISLATURE

A Message from the Executive Director

The grades are out, but does it make a difference?

In recent months, I have been deeply discouraged by the lack of progress made by the Governor and Legislature to achieve a long-term fiscal plan for the State of Alaska.

One year ago, RDC, along with dozens of other groups and businesses, penned a letter to Governor Bill Walker and all members of the Alaska Legislature, urging a solution for a long-term fiscal plan. RDC has since provided letters, testimony and other communication asking Alaska's policy makers to first reduce the state budget, craft a way to use Permanent Fund earnings, and as a last resort, institute broad based taxes as a responsible fiscal solution.

> The ABRC grades recognized policymakers who understand and promote decisive action on Alaska's twin economic imperatives of managing state spending down and, simultaneously, stimulating private sector investment in our basic natural resource industries.

The Alaska Business Report Card group (ABRC) has also provided similar urging, and after the conclusion of the 5th Special Session of the 29th Legislature, issued grades to our policy makers. The group consists of the Alaska Chamber, Alaska Support Industry Alliance, Prosperity Alaska, and RDC.

Released August 1st, the ABRC grades recognized policymakers who understand and promote decisive action on Alaska's twin economic imperatives of managing state spending down and, simultaneously, stimulating private sector investment in our basic natural resource industries.

This single action will help determine if Alaska will prosper or if our economic future will continue to dwindle.

The August Primary election came and went with many decisions thought to be made by the winning of some primary candidates in certain districts. But its not over, the November election is still important.

The grades are out and informed voters can make a difference. Every vote counts, especially in a place like our great state, and your voice can not go unheard.

For more information about the ABRC, visit alaskabusinessreportcard.com.

RDC elects new board, officers at Annual Meeting

The Resource Development Council announced its 2016-17 Board of Directors and officers at its 41st Annual Meeting Luncheon in Anchorage June 30th.

Eric Fjelstad, Perkins Coie LP, was elected President. Lorna Shaw, Sumitomo Metal Mining Pogo LLC, was elected Senior Vice President; Ethan Schutt, Cook Inlet Region, Inc., was elected Vice President; Jeanine St. John, Lynden, was elected Secretary, and Scott Jepsen, ConocoPhillips, Inc., was elected Treasurer.

Former RDC President Ralph Samuels of Holland America Line, will serve as Past President.

"For two years, I have had the privilege of serving as the President of the Resource Development Council," Samuels said. "I firmly believe that the RDC is the most respected and thoughtful voice of the private sector. Thank you to all members and staff for allowing me to be part of it."

Fjelstad is managing partner and leads Perkins Coie's environment, energy, and resources practice for Alaska. His practice is focused on oil and gas, mining, project development, litigation, and strategic counseling for industrial projects.

Newly elected to the board were Kate Blair, Tesoro Alaska Company; James Fueg, Donlin Gold; Bill Kidd, BP Exploration (Alaska), Inc.; Steve Post, North Star Equipment Services, and Chad Steadman, First National Bank Alaska.

Meeting with the board and later addressing the annual membership luncheon, Congressman Don Young noted there is an ongoing nationwide war against resource development. He warned that if America does not utilize its own natural resources, it will be forced to increase its reliance on foreign imports.

Young said his biggest challenge is convincing his colleagues that America can responsibly develop its natural resources. He thanked RDC and a coalition of Alaska groups for a recent letter to the Bureau of Ocean Energy Management supporting offshore drilling in the Arctic. He said the key to America's prosperity is its natural resources.

Young has served as Alaska's only congressman for 44 years.

Pictured above are the members of the RDC Board of Directors present at the Annual Meeting June 30th. In front row are Ralph Samuels, Past President, Eric Fjelstad, President, and Ethan Schutt, Vice President. In second row are Jeanine St. John, Secretary, and Lorna Shaw, Sr. Vice President. At bottom left, Eric Fjelstad congratulates Ralph Samuels for serving as RDC President for two consecutive terms. At right, Congressman Don Young addresses the RDC membership luncheon.

(Photos by Judy Patrick)

Thank You!

The Resource Development Council would like to acknowledge the many fine sponsors of our 41st Annual Meeting Luncheon on June 30 featuring Mark Finley and Congressman Don Young. Thank you for helping grow Alaska through responsible resource development.

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NO EASY SOLUTIONS TO FISCAL CHALLENGES

A Message from the RDC President, Eric Fjelstad

I start my inaugural column with a "Thank You" to my fellow board members for trusting me to be the next president of RDC. It has been a pleasure to serve on the board and executive committee, and I'm looking forward to an even greater role this year.

The strength of RDC derives from the staff and the high quality of their work, the organization's premier brand in the marketplace, the commitment of members to step up and do real work, and the diversity of RDC's board and its membership. These are my priorities, and I will be reaching out to the RDC community over the coming months to get your input on how we can make the organization even better. Externally, my top priority will be to work with RDC members to help the State address the fiscal challenge.

We have a challenge in front of us with the fiscal situation. It feels as though we went through a tough football game this past session. But instead of having some measurable progress, the score is still zero-zero and we have a number of players on the bench all banged up. I and many Alaskans will be looking to Juneau for leadership and a willingness to re-engage and put some points on the board this next session.

Here are a few things we know for sure:

First, we know that there are no easy solutions. There will be a percentage of the population that will be upset with any action taken by the Legislature. Significantly, there will be an increasing number of people upset with inaction.

Second, we know that time is not our ally. Much has been written about the problems of spending our dwindling savings account to fund government. Less has been said about the flight of human capital that is already happening due to the fiscal situation. People are leaving Alaska for the Lower 48 for more opportunity. Young people, in particular, are simply electing to stay away from Alaska in the first instance. This loss of human capital will have significant and long-lasting effects on Alaska and will only get harder to turn around as the gap between the opportunities in the Lower 48 and Alaska increases.

"...at every level we need to accept a basic outcome that every person will be getting less from government and giving somewhat more to make a long-term fiscal plan work. The math is simple and inescapable."

Third, we know that the Permanent Fund earnings must play some role in the solution. We cannot solve the fiscal crisis through new taxes and cuts to government alone.

Lastly, at every level we need to accept a basic outcome that every person will be getting less from government and giving somewhat more to make a long-term fiscal plan work. The math is simple and inescapable.

I am realistic and not expecting to see miracles. But I do want to see points on the board and a real willingness by the Legislature to find solutions.

I'm looking forward to my tenure as president and will be engaging with RDC members on ways to help the State transition to a more stable and sustainable government.

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Prices for all fossil fuels fell in 2015. Crude oil prices recorded the largest annual decline on record in dollar terms, and the largest percentage decline since 1986. Brent averaged $52.39 per barrel in 2015, a decline of $46.56 per barrel from the 2014 level and the lowest annual average since 2004.

Global oil production increased even more rapidly than consumption for a second consecutive year, rising by 2.8 million barrels per day (bpd) or 3.2%, the strongest growth since 2004. Production outside OPEC slowed from 2014's record growth but still grew by 1.3 million bpd. The U.S. had the world's largest annual growth increment and remained the world's largest oil producer. The country's net oil imports fell to 4.8 million bpd, the lowest since 1985.

Global trade of crude oil and refined products in 2015 grew by more than 5%, the largest increase since 1993. The crude oil trade was lifted by growing exports from the Middle East, while Europe and China accounted for the largest increases in imports.

World natural gas consumption grew by 1.7%, but still below the ten-year average of 2.3%. Globally natural gas accounted for 23.8% of primary energy consumption. The global LNG trade increased by 1.8%. Export growth was led by Australia and Papua New Guinea.

Renewable energy continued to increase in 2015, reaching 2.8% of global energy consumption, up from 0.8% a decade ago. Renewables accounted for 6.7% of global power generation, up from 2.0% a decade ago. Globally, wind energy remains the largest source of renewable electricity (52.2%). Solar power generation grew by 32.6% with China being the leading generator of solar energy. View the entire presentation at akrdc.org.

INDUSTRY DIGEST

First fiscal year oil production increase in 14 years

New data from the State of Alaska has shown a 3% increase in oil production during the last fiscal year, representing the first such increase since 2002.

"Senate Bill 21 (SB 21) paved the way for increased investment, which led to increased oil production," said Kara Moriarty, President and CEO of the Alaska Oil and Gas Association. "Production did not just flatten out, but rose by more than three percent."

Moriarty pointed out that what really stands out about the production increase is that it happened during a period of low oil prices. "This didn't happen by accident: a lot of investment dollars were spent in Alaska after SB 21 passed but prior to the drop in oil prices, and we are seeing those results now," Moriarty added. "In our view, this shows that even at low prices, investment can continue when good policies are in place."

State of Alaska Division of Oil and Gas data shows total production in fiscal year (FY) 2015 was 168.143 million barrels. Total production in FY 16 is 173.563 million barrels (extrapolating through June 2016), or an increase for FY 16 of 3.22 percent. All oil produced off the North Slope generates royalty payments, which fuels the corpus of the Permanent Fund.

Despite this good news, the industry's ability to sustain the activity required to add oil production is in question. A prolonged period of low oil prices, combined with yet more uncertainty about what the future holds for State fiscal terms, tax credits, and plans of development, is likely to have a negative impact on future oil and gas activity.

"We have already seen one major change in the tax structure this year in House Bill 247, which will negatively impact investment behavior," said Moriarty. "At this rate, the industry has little confidence in the State's desire to provide stable fiscal terms, or even to honor its commitments to the tax credits that have already been earned. So, we will celebrate this exciting development, but with the bittersweet reality that the outlook is far from rosy."

Interior issues final rule for Arctic OCS drilling

The U.S. Department of the Interior has published its final rule regulating oil and gas drilling on Alaska's Arctic Outer Continental Shelf (OCS).

The regulations require the development of an integrated operations plan in advance of filing an exploration plan. The regulations also require the operator to promptly deploy source control and containment equipment such as capping stacks or containment domes when drilling. The operator must also have available a backup drilling rig for the timely drilling of a relief well in the event of a loss of well control.

U.S. Senator Lisa Murkowski is reviewing the rule to determine whether the department took into account the substantive comments it received from Alaskans, including comments that were intended to resolve real defects in the draft proposal.

"What we know already is that one company invested nearly $8 billion to complete just one well while operating under guidelines that inspired this rule – which means it is hardly a recipe for successful production in the Arctic," Murkowski said.

The rule revises and adds new requirements to regulations for exploratory drilling and related operations in the Arctic. While claiming to increase safety and environmental standards, Interior's rule appears more likely to reduce investment and harm energy production in the region.

"This rule should be a positive sign for the administration's willingness to offer new leases in the offshore Arctic, but instead it continues to hint toward an even more uncertain future for the regulatory regime in this region," Murkowski said. "I am dismayed by the regulatory onslaught the administration is launching on American energy production in its final days."

The Beaufort and Chukchi Seas contain an estimated 23.6 billion barrels of oil and 104.4 trillion cubic feet of natural gas. According to a 2014 poll, an overwhelming majority of Alaskans support the development of those resources. View RDC's comments at akrdc.org.

RDC urges Forest Service to increase supply of old-growth timber

In a letter to the U.S. Forest Service on the proposed Wrangell Island timber sale in the Tongass National Forest, RDC urged the agency to increase the supply of old-growth timber to the forest products industry until young-growth stands are more fully mature.

The Wrangell Island Project was originally intended as one part of the Forest Service's pledge to provide a series of ten-year timber sales, each with an annual volume of 15 to 20 million board feet to help meet its ten-year timber sale commitment under the 2008 Tongass Land Management Plan. However, numerous regulatory constraints have severely compromised the economics of the project, leaving only a quarter of the land within the project area open to logging.

RDC noted a market demand analysis for the project is inadequate and inaccurate. See RDC's full comments at akrdc.org.

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121 West Fireweed, Suite 250, Anchorage, AK 99503

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