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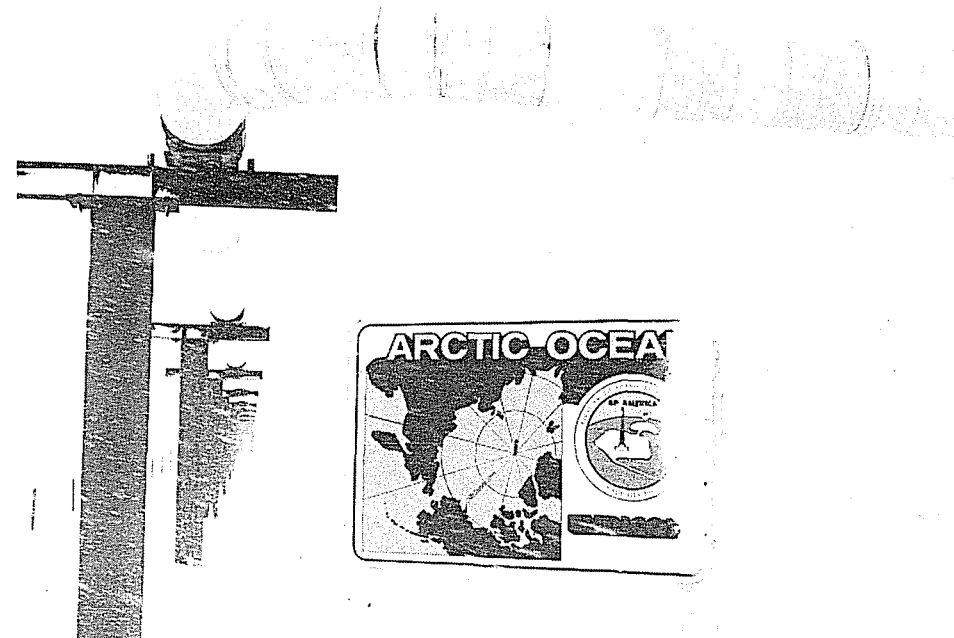
Resource Review

February 1989

Prudhoe production enters new phase

Cost-per-barrel will rise

by Carl Portman



Tapping new economic reserves from Prudhoe Bay will become more difficult and expensive as the field matures. Photo by Carl Portman.

Oil production from the super-giant oil field at Prudhoe Bay is entering a new phase. With over half of Prudhoe's recoverable oil already produced, tapping new economic reserves from the big field will become increasingly difficult and expensive with the cost-per-barrel rising substantially.

The Prudhoe Bay and Kuparuk fields have now reached a point where their ongoing development is a series of individual projects, large to small. Each project is coordinated with others, but each is largely dependent upon its own economics.

Much of the oil yet to be produced on the North Slope is located within the Prudhoe Bay reservoir. Prudhoe will produce about 11 billion barrels, leaving another 11 billion barrels trapped in the reservoir. Advancing technology may allow up to several hundred million barrels of that oil to be economically recovered, equal to discovering a major new oil field like Endicott or Lisburne.

"The Prudhoe Bay field is so large that people often overlook its enormous potential for marginal production," according to BP Exploration's Jim Buckee, Vice President, Development Programs.

With Prudhoe's natural decline approaching, engineers are looking for ways

(Continued on page 6)

JOBS

Multiple Use and Resource Opportunities for Alaska
... see program update pages 4-5

RDC Director addresses President Bush

January 31, 1989

The Honorable George Bush
President of the United States
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20500

Dear President Bush:

Congratulations on being elected President of the United States. Our thoughts are with you as you take office and begin to shape history.

I have enclosed a letter commending your strong and prudent stand on the opening of the ANWR coastal plain to oil and gas development. It was sent to over 200 newspapers across the country.

As you know, in the heat of the protectionist feeding frenzy of the 1970s, a compromise was struck to have Dept. of Interior look at the so-called 1002 (h) area more closely for all its values, then report to Congress.

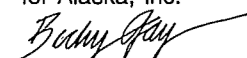
This was done. Unfortunately, especially for Alaskans, another lands battle has ensued. A "mini-D2; Son of ANILCA; Return of the Public Land Battle" real-life drama is going on, with Alaska lands supposedly every Congressman's "cheap, environmental vote."

In the midst of all the rhetoric about ANWR, it was a real blessing to hear your clear-cut message on the subject.

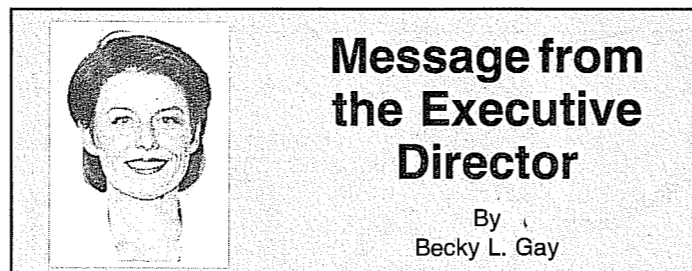
Thank you again for your foresight and conviction.

Sincerely,

RESOURCE DEVELOPMENT COUNCIL
for Alaska, Inc.


Becky L. Gay
Executive Director

cc: Senator Ted Stevens
Senator Frank Murkowski
Congressman Don Young
Secretary of the Interior Manuel Lujan, Jr.



Open letter to:

February 1989

Mayor Jerome Selby, Kodiak Island Borough
President, South West Municipal Conference
Kodiak, Alaska 99615

Dear Jerome:

Thank you so much for your kind hosting of the South West Municipal Conference, Jan. 20-22.

I commend you for an excellent regional attempt at pursuing economic development from the local level up.

It was especially rewarding to see Senator Fred Zharoff, Representative Cliff Davidson and Representative George Jacko spend their time at the forum, learning and listening.

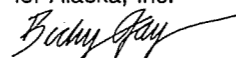
Pursuing SWMC goals while educating on issues made the conference worthwhile. Bringing the financiers to the community was an excellent stroke. Getting the weather to cooperate so that all the important people who attended were captured for one more day in Kodiak was quite clever! I am still not sure how you did it.

Of course, you do have John Levy to assist you and he is very experienced in bad weather. Congratulations to the both of you for the very fine time had by all!

I am sure we will be working closely together on issues ranging from essential air service and marine transportation to how to finance resource development in Alaska.

Sincerely,

RESOURCE DEVELOPMENT COUNCIL
for Alaska, Inc.


Becky L. Gay
Executive Director

P.S. Thanks to all the people who made my Superbowl Sunday layover so delightful.

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| <p>Resource Development Council, Inc.</p> <p>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.</p> | <p>Executive Committee Officers</p> <p>President J. Shelby Stastny Vice President Ethel H. "Pete" Nelson Vice President John Forcosek Secretary Stephen Ellis Treasurer Larry Laughman Past President Joseph Henri</p> <p>Staff</p> <p>Executive Director Becky L. Gay Public Relations Director Carl Portman Finance and Member Services Director Anne M. Bradley Projects Coordinator Debbie Reinwand Staff Assistant Kimberly R. Duke</p> | <p>Resource Review is the official monthly publication of the Resource Development Council, Box 100516, Anchorage, Alaska 99510 - (907) 276-0700.</p> <p>The RDC business office is located at 807 G Street, Suite 200, Anchorage.</p> <p>Material in the publication may be reprinted without permission provided appropriate credit is given.</p> <p style="text-align: center;">Carl Portman Editor & Advertising Manager</p> |
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Big "W" Wilderness...

(Continued from page 3)

further additions to the statutory Wilderness inventory threaten Alaska's future economic viability. With the passage in 1980 of the Alaska National Interest Land Conservation Act an assurance was given that there would be no more additions to the big "W" type of Wilderness. Don't forget that ANILCA set up a complicated system of land ownership and classification as well as management designations on the federal public domain. Consequences include greatly reduced access and severe restrictions on many development opportunities especially in mining. Now, despite the assurances of the ANILCA "no more Wilderness" provision, moves to the contrary are under way. In 1984, just four short years after passage of ANILCA, the Wilderness Society (for sure with a big "W"), in a flagrant abrogation of trust, devised an agenda to grab more withdrawals of the restrictive big "W" type. Such action was needed, they say, to correct "serious omissions and weaknesses" in the original ANILCA legislation. There are several components to the Wilderness Society 1984 agenda which should raise anger in the hearts of Alaskans. Let me list a few.

Firstly, Wilderness Designation is sought for the Coastal Plain of the Arctic National Wildlife Refuge. This location is probably the site of America's last onshore jumbo-sized oil reservoir, the drilling and development of which is crucial for Alaska.

Then the Wilderness Society seeks repeal of Section 705 of ANILCA, which mandates an annual offering of 450 million board feet of timber from the Tongass National Forest. Repeal could cripple Southeast Alaska's timber industry.

Thirdly, the agenda seeks designation of the 23.5 million acres contained in the National Petroleum Reserve Alaska as a National Wildlife Refuge — only one step removed from statutory Wilderness and a move that would preclude oil, gas and mineral development in an area of enormous potential.

Then there is the proposal to designate 150,000 acres surrounding the Quartz Hill molybdenum mine near Ketchikan as Wilderness. This is a transparent move to derail and prevent efforts to develop this property, which contains 10 percent of the world's known molybdenum reserve.

Close to home in Fairbanks, the Wilderness Society wants to confer Wildlife Refuge or Wilderness status over the entire Steese/White Mountain Conservation Area. This action would permanently lock up known highly prospective mineral terrain.

In yet another proposed action, the Wilderness Society wants to revoke a provision in ANILCA that provides for access across the southern boot of the Gates of the Arctic National Park and Preserve. This is access which may be essential for major mining projects in the Ambler district and elsewhere in Northwest Alaska.

Driving the nail into the coffin, the Wilderness Society wants to mandate Wilderness review for 76 million acres of BLM land — a move that would surely end any vestige of true multiple use management on the federal public domain by the BLM.

The list of agenda items goes on and the effect of even limited success by the Wilderness Society could be extremely grave for Alaska.

Alaska is primarily a resource state; a provider of new wealth from its lands in the form of oil and gas, coal, minerals, and timber, as well as fish from its waters. Each and every item of the Wilderness Society agenda is a major threat that seeks to foreclose on legitimate and vital economic endeavor in Alaska.

To gauge the seriousness of the threat be aware that bills addressing the first three agenda items were introduced during the last session of Congress.

Passage of Tongass National Forest legislation is highly likely in 1989. An ANWR bill allowing drilling in the 1.5 million acres of the coastal plain — if it passes — will certainly not be without a steep price in terms of "trade offs."

The public must wake up to the fact that when Congress (prodced by the Wilderness Society) in its "infinite wisdom" legislates new Wilderness it is not of the benign variety that is user-friendly, but rather the crippling restrictive kind that stifles economic opportunity and is intolerant of human presence.

I maintain that more Wilderness is contrary to Alaska's best interests. Alaska needs more big "W" Wilderness about as badly as an Amazon Indian needs antifreeze for his dugout canoe!

New oil production...

(continued from page 6)

of fields like Niakuk much more difficult, if not impossible.

Despite years of experience with onshore development, even small fields located on land can face this problem. Companies must still negotiate permits through as many as 25 government agencies. Habitat concerns frequently result in costly stipulations being added to permits, requiring major modifications.

Even the cost of ongoing environmental monitoring is increasing. At BP's new Endicott field, environmental monitoring currently costs about \$5 million annually. Since 1981, ARCO and BP Exploration have spent about \$20 million for environmental studies pertaining just to causeways in the shallow coastal waters.

According to ARCO Alaska President Bill Wade, continuing industry investment is essential to maintaining oil production on the North Slope which could otherwise decline at a rate of up to 20 percent a year.

"That rate of decline won't be nearly as rapid because of the yearly investments being considered," Wade said.

Meanwhile, industry will be forced to take another look at its Alaska investments, given an increasingly onerous regulatory and taxation environment.

Current Alaska tax laws encourage producers to invest in new oil recovery projects. However, some state policy makers are advocating an increase in oil taxes by repealing or revising the Economic Limit Factor (ELF).

That would bring the state more money in the short term, but the consequences could mean fewer jobs, less development and less state revenue over the long term.

Oil taxes and royalties contribute more than 85 percent of the state's income. For ARCO, taxes are its single largest cost item, more than all other expenses combined.

The proposed revision in ELF would amount to a tax increase. Legislation would increase severance taxes at Prudhoe Bay by more than 40 percent and at Kuparuk by more than 100 percent over the next ten years.

ARCO's Wade believes that oil investments are not only the real source of Alaska's wealth, but the key to long-term health of the state treasury.

The performance of the Prudhoe Bay field has been "nothing short of phenomenal," Wade said. The plateau of oil production has been extended three years beyond the time Prudhoe production was expected to begin falling off.

Encouraging new production is the surest way to continue a healthy level of royalties and tax revenues to the state. Additional production will happen under a stable tax policy, as will further investment in technology.

Producers weigh costs of new projects

Prudhoe marked by marginal projects

(Continued from cover)

to encourage new production. Their prime targets are the small, undeveloped pools of oil bypassed in earlier production, as well as fringe areas along the periphery of the big field that were previously uneconomic when little infrastructure was in place during the early stages of development.

A number of new developments are underway on the North Slope, many of them small or medium-sized. Other efforts are aimed at squeezing more oil from the maturing reservoirs. Such projects will not only soften the expected decline of oil from Prudhoe, but they will add new reserves, extending the life of North Slope oil fields. This is good news for Alaska because it means new jobs and more state revenues over the long term.

But the oil industry warns that economic margins are very narrow and that its confidence to push ahead with new projects could be shaken if costs rise. Any extra cost, whether from new taxes or costs imposed by regulatory agencies, can easily kill a project.

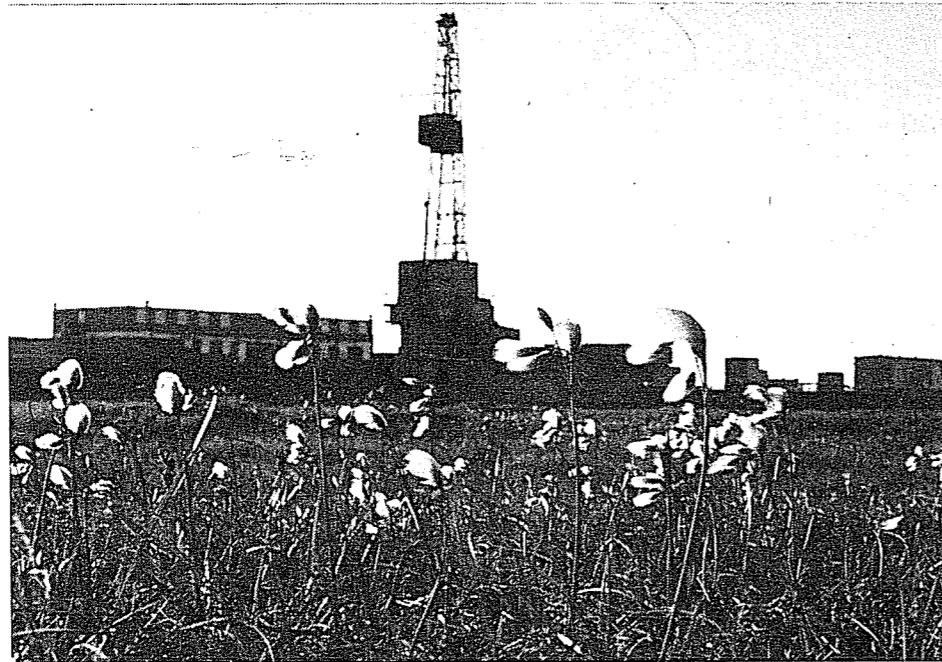
A prime example is the Niakuk oil field near Prudhoe Bay where development is not economical without a permit to construct a breached causeway to reach the small island about one mile offshore. The field contains an estimated 58 million barrels of recoverable oil, making it the largest field discovered in the U.S. since 1971.

Prudhoe Bay producers have invested about \$24 billion in field development to bring North Slope crude to market. In 1984, the industry spent \$2 billion on a field-wide waterflood project aimed at enhancing oil recovery. This ongoing program involves injecting seawater into certain parts of the reservoir to push oil out of the rock toward production wells. The added oil production resulting from waterflood alone will result in more than \$4 billion in additional oil revenues to local, state and federal governments.

Billions of more dollars will be spent as the companies initiate new, more expensive development work.

Prudhoe Bay producers will spend an estimated \$750 million in 1989 on projects designed to maximize recovery. A \$350 million expansion of gas handling facilities is expected to increase oil production by some 90,000 barrels a day in 1990, and will result in the recovery of at least 400 million barrels over the life of the field.

Without the expansion, oil production at Prudhoe will soon be limited by the ability to handle natural gas produced in associa-



The Prudhoe Bay and Kuparuk fields have now reached a stage where their ongoing development is a whole series of individual projects, large and small. Each is planned in coordination with others, but each must also stand on its own economics, which is often marginal.

tion with crude oil. Natural gas is presently reinjected into the reservoir.

Increased oil production resulting from this project will partially offset the anticipated natural decline in Prudhoe Bay production. It will allow wells to remain on production longer, thereby increasing oil recovery.

The State of Alaska could receive more than \$1.5 billion in royalties and taxes over the next 20 years as a result of additional production. The project will also generate an estimated 1,750 jobs in Alaska.

In the next ten years, one oil company alone — ARCO Alaska, Inc., — plans to spend more than \$5 billion in Alaska. Of that total, more than \$3 billion will go to development of known reserves. Other opportunities include investment for ongoing operations in fields now in production and for exploration and development of new fields.

Much remains to be done at Prudhoe Bay and Kuparuk where over 1,000 additional wells could be drilled. These wells will be drilled at a cost of \$2 billion to \$3 billion to field owners.

Another major upcoming expenditure for industry is the initial development of the West Sak field. West Sak could contain up to 20 billion barrels of oil, but this field is a great technical challenge to develop because its sands are shallow and contain heavier oil. The first phase of full field development at West Sak could cost over \$2

billion with development planned to begin in the early to mid-1990s. In the meantime, ARCO plans to launch a multi-million dollar test program at West Sak this year, drilling one well while continuing a vigorous and expensive research program aimed at bringing the field into development. West Sak could eventually add 50,000 to 200,000 barrels of oil to daily production levels. But getting at this oil will prove challenging and expensive.

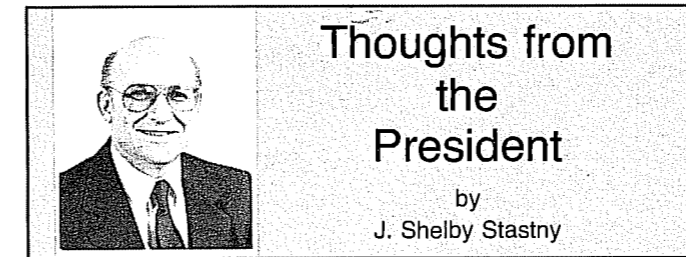
Meanwhile, BP Exploration is developing Eileen West End, one of Prudhoe's fringe areas. BP started production in 1988 and eventually will recover more than 100 million barrels. BP will also start development drilling at Hurl State, a marginal section of reservoir along Prudhoe's southern edge. With waterflood, this area should add 35 million barrels to reserves.

Each is considered a separate project, like small oil fields within the larger Prudhoe field. If a reasonable portion of that oil can be recovered, and if other costs look affordable, drilling may proceed.

There are other oil accumulations in the shallow coastal waters near Prudhoe Bay, but permitting agencies do not always agree with companies about how to access these deposits. A recent Corps of Engineers policy statement discouraging the construction of causeways will make development

(Continued on page 7)

Final countdown to JOBS conference



Thoughts from the President

by
J. Shelby Stastny

QUESTION: Why is the Resource Development Council holding a JOBS conference?

ANSWER: Alaskans want to pursue their choice of job and lifestyle in the Greatland and the state's abundant resources offer the best solution to economic diversification and new job creation.

The countdown to RDC's annual conference on February 24-25 is underway and as you can see from the updated conference agenda on pages 4-5, the array of speakers will be impressive and the topics covered will be informative.

Jobs and the creation of new employment opportunities are of utmost importance to all Alaskans, and RDC takes pride in hosting this event. The list of outstanding speakers confirmed for the conference includes those whose innovative efforts have created jobs, and reports from others of jobs that could be created if the political and economic climate of our state would allow specific efforts to proceed.

We will hear from industry, labor and government leaders as well as the founders of pro-development national activist groups. Detailed presentations focusing on employment trends within each resource sector will be featured. Key roadblocks to job growth will be identified with emphasis on overcoming obstacles to new job creation. Participants will learn about pending access issues which may help or kill future resource development opportunities. There will be eye-opening discussions about multiple-use land issues and the human factor in intelligent resource allocations.

Alaska and big "W" Wilderness

By John Sims

The average citizen is likely to define wilderness as land in which one can commune with and enjoy pristine natural conditions. A land where he or she may camp, hike, fish and hunt, breeze through on a snowmachine or trek on horseback — in short a land hospitable to man; a land wherein many of the concerns of city life can be left behind for a while.

Small wonder that this concept of wilderness is popular with the American people. Few are aware of the yawning chasm of differences between the popular concept of wilderness which I will term wilderness with a small "w" — and legislative Wilderness characterized as Wilderness with a big "W." The differences between the two are like chalk and cheese.

The small "w" variety is user-friendly and represents that part of man's environment where one can truly get away from it all and enjoy the great outdoors. The big "W" variety is totally different and basically is defined as an environment in which man is alien. Wilderness is a setting in which humans have little or no right to be, let alone conduct any activity, be it for pleasure or profit. The big "W" variety does have its supporters who pull the wool over the eyes of the American people by lobbying for more and more of the public lands to be set aside as Wilderness, the big "W" variety. Their efforts are largely an exercise in mass deception, a classic case of what you think you are getting is not what you get!

Why be so uptight over wilderness, or rather Wilderness, you may ask? Well, it is the big "W" variety that concerns me because

(Continued on page 7)

As Alaskans we must demand economic accountability from our public officials regarding unnecessary regulations which impede the private sector's ability to create economic activity and jobs.

Speaking to a group of business and education leaders in Anchorage last month, Lodwick M. Cook, Chairman of ARCO, said "If the extremist element of the environmental movement wants a pristine environment with no traces of human activity, they must accept the economic consequences that go with it and then the American people should be given all of the facts." Cook added, "The environmental leaders should have to tell us how many U.S. jobs, how much of our standard of living, they are asking us to sacrifice."

Cook pointed out that much business activity today requires an Environmental Impact Statement. He asked, "Shouldn't we also require another EIS — an economic impact statement of equal stature? Only then will we really understand the tradeoffs."

In his presentation, Cook noted Alaska state law requires that water overflow from holding pits at Prudhoe Bay meet drinking water standards. Cook said that "water naturally standing in pools all over the North Slope doesn't meet drinking water standards." He continued, "At a time when there are very serious threats to the environment all around the world, demanding drinking water standards from holding pits seems to me to be overreaching."

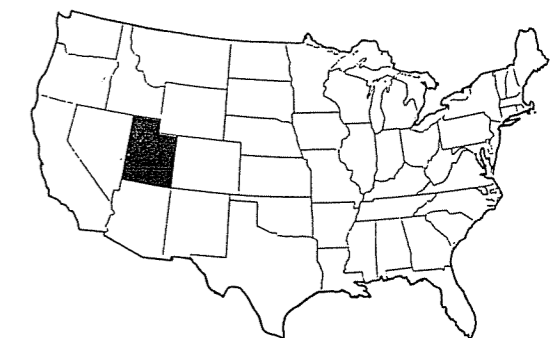
We all know that similar water standards have recently shut down many of the state's placer mining operations, eliminating jobs in rural Alaska.

Alaska's economic health is largely dependent on a strong and consistently growing PRIVATE sector. Unlike the public sector, jobs in the private sector are usually required to pay their own way.

Come to the RDC JOBS conference Friday and Saturday, February 24-25 and learn about jobs that make a strong economy and even provide ways to pay for themselves.

JOBS! Multiple Use and Resource Opportunities is an investment in the career of your choice.

Federal Wilderness in Alaska

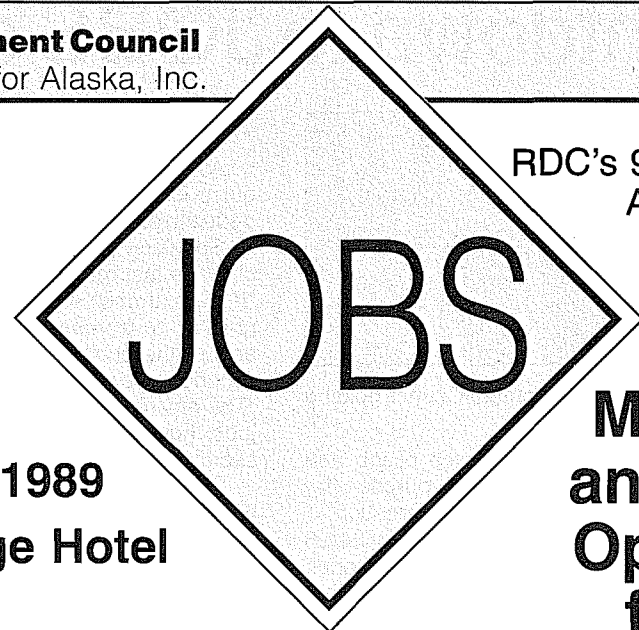


If Alaska's 57 million acres of designated Wilderness were made into one state, it would be the 11th largest state in America or larger than the combination of Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, New Jersey, Delaware and Maryland.

Comparative state acreage:

| | |
|----------------------------------|------------------|
| 10. Oregon | 62 million acres |
| 11. Alaska designated Wilderness | 57 |
| 12. Utah | 54 |
| 13. Minnesota | 54 |
| 14. Idaho | 53 |
| 15. Kansas | 52 |

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RDC's 9th Annual Conference on
Alaska's Resources

Multiple Use and Resource Opportunities for Alaska

February 24-25, 1989
Sheraton Anchorage Hotel

Friday, February 24, 1989

- 7:00 Registration and "Eye-Opener" refreshments
- 8:30 Opening Remarks, **Shelby Stastny**, President, Resource Development Council for Alaska, Inc.
- 8:40 Welcome, **Mayor Tom Fink**, Municipality of Anchorage

Alaska Jobs Depend on Strong Industries

- Moderator, **Mano Frey**, Executive President, Alaska AFL-CIO, RDC Executive Committee member, Anchorage.
- 8:45 **JOBS! American Productivity at Stake**, **Arnie Weinmeister**, Director, Western Conference of Teamsters and Vice President, Executive Board, International Brotherhood of Teamsters, Seattle, WA.
- 9:20 **JOBS! The Coming Gold Rush**, **John Zigarlick**, Chief Executive Officer, Echo Bay Mines, Ltd., Edmonton, Alberta
- 10:00 **JOBS! The State's Perspective**, **Governor Steve Cowper**
- 10:30 **JOBS! Oil and Gas**, **Ben Odom**, Senior Vice President, Operations, ARCO Alaska, Inc., Anchorage
- 11:00 **JOBS! Fisheries**, **Clem Tillion**, Chairman, International Northern Fisheries Commission, Halibut Cove, AK
- 11:30 Break for the All-Alaska Expo
- 12:30

Luncheon Keynote:

Resource Production in a Public Land State

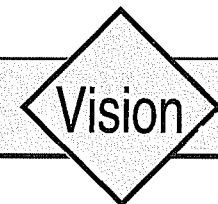
Bill Horn, Attorney, Birch, Horton, Bittner, Cherot and Anderson, and former Under-Secretary of the Department of the Interior, Washington, D.C.

Access Means Jobs

- Moderator, **Bill Horn**, former Under-Secretary of the Interior
- 2:10 **Title XI of the Alaska National Interest Lands Conservation Act and the RS2477 Issue**, a special panel examination featuring:
Public Sector Perspective: Mike Penfold, Regional Director, Bureau of Land Management, Anchorage, **Walter Stieglitz**, Regional Director, U.S. Fish & Wildlife Service, **Tom Hawkins**, Assistant Commissioner, Alaska Department of Natural Resources.



Program



- 3:15 Break for the All-Alaska Expo
- 3:45 **Private Sector Perspective: Kathy Weeks**, Attorney, Pacific Legal Foundation and **Don Argetsinger**, Regional Vice President, Resources, NANA Development Corporation, Kotzebue, AK
- 5:00 Reception in the Yukon-Kuskokwim Rooms at the All-Alaska Expo (No-host bar)

Saturday, February 25, 1989

The Human Factor in Resource Allocations

- 8:00 Coffee service and refreshments
- 9:00 **Prompt! Call to order with "early-bird" business card drawing (must be present to win)**
Moderator, Bill Schneider, Executive Director, Associated General Contractors, Anchorage
- 9:05 **JOBS! The Tongass National Forest**, **Don Finney**, Executive Director, Alaska Loggers Association, Ketchikan
- 9:30 **JOBS! The Timber Outlook on State Lands**, **Robert Dick**, Alaska State Forester, Alaska Department of Natural Resources, Juneau
- 10:00 **JOBS! The Visitor Industry**, **Dana Brockway**, Executive Director, Alaska Visitors Association, Anchorage
- 10:30 **Job Creation through Privatization**, **Dr. Phillip Fixler, Jr.**, Director, Local Government Center, Santa Monica, CA
- 11:00 Break for the All-Alaska Expo
- 12:00

Luncheon Keynote:

Preserving Multiple Use Opportunities, Access and Jobs on Our Federal Lands

Chuck Cushman, Executive Director, National Inholders Association and Multiple Use Land Alliance, Sonoma, California

- 2:00 **Jobs and the Opportunity Cost of Wilderness**, **Grant Gerber**, Chairman, Wilderness Impact Research Foundation, Elko, Nevada
- 2:30 **Multiple Use and the Consumer**, **Barbara Keating-Edh**, President, Consumer Alert, Modesto, CA
- 3:00 **Leading America to a Sensible Policy of Multiple Use**, **Ron Arnold**, Executive Director, Center for the Defense of Free Enterprise, Bellevue, WA
- 3:30 Break for the All-Alaska Expo
- 4:00 **Taking the ANWR Message Outside: Keeping People in the Equation**, **Merrill Sikorski**, National Director, Environmental Task Force, American Freedom Coalition, Soldotna
- 4:30 **Wilderness Expansion**, a new highly-acclaimed national film
- 5:00 Grand Raffle Drawing (Tickets now on sale, call 276-0700)