Industry leaders call for fiscal stability to revive economy

With a multi-billion dollar deficit, Alaska is at a crossroads and the path its elected leaders choose in the upcoming months could have a profound impact on Alaska’s resource industries and the economy, speakers warned at the Resource Development Council’s 37th Annual Alaska Resources Conference in Anchorage last month.

“Not solving the state’s fiscal imbalance increases uncertainty and exacerbates the problem,” warned Janet Weiss, President of BP Exploration (Alaska) Inc. “It is time to move beyond entrenched positions and work the problem,” Weiss said. She urged elected officials to “forge a way forward that includes fiscal stability and policies that don’t make the competitive uncompetitive, driving companies away from Alaska and shortening the producing lives of our fields.”

Independents Caelus Energy Alaska and Armstrong Oil and Gas Company, which both recently announced large discoveries on the North Slope, noted that fiscal stability going forward is critical for projects of their magnitude.

Speakers representing the mining, tourism, and fishing industries also emphasized that Alaska’s resource development projects need to compete with industry investment opportunities elsewhere and in a low price environment. They also spoke to the need for a stable, rational, and predictable regulatory process.

In addition, industry leaders emphasized that a stronger private sector, driven by responsible resource development, will grow the economy and the revenue pie for all, including the public sector, as new revenue-generating oil fields, mines and other projects are brought online in a state that encourages investment. They said Alaska’s resource industries should be considered part of the solution to restoring and growing the economy rather than a fiscal policy target.

Videos and presentations of conference speakers are available online at akrdc.org/conference.

RDC URGES FEDS TO WITHDRAW NPR-A MITIGATION PLAN

The Resource Development Council (RDC) urged the Bureau of Land Management (BLM) to withdraw the Draft Regional Mitigation Strategy (RMS) for the Northeastern National Petroleum Reserve-Alaska (NPR-A).

In comments to the agency earlier this month, RDC said the RMS is fundamentally flawed because it does not reflect a balanced approach between protecting the environment and the need for new oil production in Alaska. In fact, the RMS includes pre-decisional language and analysis characterizing the economic benefits from future oil and gas development as minimal and the environmental impact as significant, skewing the outcome of future project-specific analyses.

RDC strongly objected to such a characterization, given new and ongoing oil and gas development within NPR-A will have significant positive economic benefits to the North Slope Borough, its residents, Alaska as a whole, and the nation. Moreover, the RMS did not consider the 265 mitigation measures and best practices already in place, instead requiring an additional layer of regulation and compensatory mitigation fees.

The RMS could easily become an effective tool in discouraging industry investment. The RMS will make development more difficult and expensive. It also may significantly crimp new oil production. RDC’s comments are available at akrdc.org.
Alaska delegation slams Bering Sea federal withdrawal

The Alaska congressional delegation spoke out against an Executive Order by President Obama creating a “Northern Bering Sea Climate Resilience Area” for over 112,000 square miles off Alaska’s western coast, in addition to withdrawing 40,300 square miles of federal waters from oil and natural gas leasing.

“This is the first time we have ever seen the term ‘climate resilience area’ in Alaska or anywhere else,” U.S. Senator Lisa Murkowski said. “We have no idea what that designation is supposed to mean, what legal authority it is supposed to rest on, what the limitations for it will be, or what it will mean for subsistence, shipping, fishing, and other activities in western and northern Alaska. To me, this sure sounds like a euphemism for a marine monument, because it locks up over 112,000 square miles of Alaska waters and seems destined to impact a wide range of communities, tribes, and industries in our state. While I strongly support meaningful consultation with tribes, this opens the door to a whole host of unknowns, and could easily be misapplied to block even the most responsible Arctic subsistence, activities, and development.”

“This executive order, drafted behind closed doors, unilaterally closes fishing grounds, removes oil and gas leasing, and creates hurdles to shipping, all with the stroke of a pen – without any consultation with the State, Alaska’s congressional delegation, or public notice, consultation, or comment,” said U.S. Senator Dan Sullivan. Congressman Don Young pledged to work with the delegation to reverse the order.

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I am astonished by the recent announcement by the Obama Administration to close off over 112,000 square miles of the Bering Sea to future activity (see page 2). It is unclear what the Executive Order will mean, and how it may impact future activity such as subsistence hunting, fishing, marine transportation, and oil and gas exploration. What is also disconcerting is that the federal administration has once again pulled the wool over the eyes of Alaskans.

Alaska is an ocean state with over 6,600 miles of coastline bordering two oceans, the Arctic and the Pacific, and with three different seas: Chukchi, Beaufort, and the Bering Sea. Alaskan stakeholders, including all RDC members, have an interest and care more about protecting these seas, as well as the three million lakes and three thousand rivers in Alaska.

What this order doesn’t recognize is that there are existing measures in place to protect our nation’s waters, which clearly demonstrates our interest in not only safeguarding, but also wisely utilizing our ocean resources. By adding another layer of bureaucracy, the Administration has further hindered future economic opportunities in communities where few exist in an effort to protect something that is already protected.

We must continue to have access to our traditional and undeveloped natural resources. Responsible development of these resources creates jobs throughout Alaska. I fear many of these communities will disappear as the federal government layers unnecessary and overly burdensome levels of bureaucracy.

The Bering Sea and Bering Straits are vital ecosystems that support the way of life for Alaskans, and have done so for thousands of years. Born and raised in Nome, I fished the mouth of the Nome River and harvested other resources from the Bering Sea. Preserving our land and sea is important to my family, our communities and for the next generation of Alaskans. Decisions made by the Administration should have included conversations with all of the people of Alaska who have lived, worked, and conserved the land and sea for generations.

My family and I spent the Thanksgiving holiday in Nome with family and friends. Behind her is the Bering Sea.

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My family and I spent the Thanksgiving holiday in Nome with family and friends. Behind her is the Bering Sea.
OUTLOOK FOR ALASKA COAL IS BRIGHT
Guest Opinion: By Lorali Simon

If we were to assess the future of the domestic and global coal industries from remarks made by two recent keynote speakers (Mark Finley at the June Annual Membership Luncheon, and Gianni Kovacevic at the November Alaska Resources Conference), we might assume that the last mine was about to close, and the last coal-fueled power plant was about to become a relic. Thankfully, those of us who still analyze the fundamentals of commodity markets, rather than pushing an ideological position unconstrained by the inconvenience of facts; know that the outlook for coal is far brighter than what was represented.

The value of coal-fueled electricity to the economic well-being of Alaskan, American, and foreign families and businesses has never been more important. Alaska coal provides Interior Alaska residents with about 30% of their energy supply and is Interior Alaska’s lowest-cost source of energy, at about half the cost of diesel, about one-third the cost of natural gas (if it were available), on a price per BTU basis.

Currently, natural gas is not available for large-scale energy use in the Interior. The high cost of energy in Interior Alaska will continue to act as a constraint on economic development. Without the reliable and low-cost energy made possible by coal, the Interior economy would face even more serious challenges.

Coal emerged as the best balance, considering cost, reliability, and emissions, when the University of Alaska Fairbanks (UAF) examined 13 different design options to replace their existing coal-fueled power plant. Additionally, Eielson Air Force Base has spent over $40 million since 2014 upgrading their coal-fueled combined heat and power plant to extend its life, and additional future upgrades are planned. In Healy, Golden Valley Electric Association (GVEA) has been working to bring the Healy Clean Coal Project (now called Healy Unit #2) online. While the effect on consumer rates has not yet been determined, Healy #2 will at least stabilize rates in the near term and provide for lower costs in the future.

In the United States, there is growing recognition that coal will continue to play a key role. Studies highlight the risks of moving the U.S. generation fleet towards large amounts of natural gas and renewables. Natural gas risks include price volatility, infrastructure, and deliverability. Renewables risks include intermittency, low efficiency, outsized land requirements, and threats to plant and animal species. Coal is a critical fuel source to mitigate such risks and maintain grid reliability.

Support for coal is critical and justified. The U.S. coal fleet has made significant progress in reducing sulfur dioxide, nitrogen oxides, and particulate matter – an impressive 92% reduction per kilowatt hour through 2015. More than 90% of coal-fueled power plants have installed advanced emissions controls and, by the end of 2017, capital investments from the coal and utility industries into these technologies will exceed $122 billion (Energy Ventures Analysis “Capital Investments in Emission Control Retrofits in the U.S. Coal-fired Generating Fleet through the Years - 2016 Update”). This progress must not be stalled, and these investments must not be stranded.

Government support for renewable energy far exceeds its support for carbon capture, use, and storage (CCUS) technology. Renewable energy received $37 billion in tax credits and incentives from 2010-2014, while CCUS received $1 billion (National Coal Council, “Leveling the Playing Field – Policy Parity for Carbon Capture and Storage Technologies,” November 2015). Tax credits and subsidies for wind and solar have been successful in lowering the costs of these technologies, enabling their growth and deployment, which must continue if they are to become self-sustaining industries.

Energy forms the basis for all economic progress and creation of wealth. The global need for energy is critical, especially to lift nearly one third of the world’s population out of energy poverty. China, a country that consumes 50% of the world’s coal, is building coal plants at the rate of about one per week. The combination of low-cost financing and low coal prices make power projects attractive. Over the next two years, China will spend billions of dollars on new coal plants, and so will India.

Korea’s coal consumption is likely to grow by 2.7% this year. They are scheduled to bring five new coal-fueled plants online by the end of the year. In contrast, consumption of natural gas is forecast to drop 6.4% this year.

Coal is an important commodity with proven value and benefits. It has been the mainstay of affordable electricity and economic stability in the U.S. and is the energy solution for Alaska, as well as developing nations to electrify their economies and provide better and healthier living conditions for their citizens.

Editor’s Note: Lorali Simon is Vice President, External Affairs, Usibelli Coal Mine, Inc. and an RDC board member.
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DECEMBER 2016 RESOURCE REVIEW 5
This is a time of transition with a new federal administration preparing to assume control in late January. Alaska is expecting a lot from the incoming administration and I suspect many RDC members are working on their wish lists. Here you’ll find my initial list of things I would like to see addressed by the incoming administration and Congress.

**OCS Revenue Sharing:** Congress should provide that revenues from offshore oil and gas leases on the Arctic Outer Continental Shelf would be shared with the State of Alaska and local governments, including tribes. States and communities in the Gulf of Mexico already enjoy revenue sharing, a circumstance that contributes to widespread support in the region for the oil and gas industry. Alaska should be given the same benefits as other oil-producing regions.

**ANWR:** The Arctic National Wildlife Refuge could potentially contribute billions of barrels of oil to Alaska production and there may, finally, be a political path to open the area for exploration. A window like this may not appear for another generation, if ever. ‘The upside for ANWR is “yuge” and I would like to see the State and all the stakeholders go “all in” to make it happen.

**NPR-A:** Has the word “petroleum” been forgotten by those responsible for planning in the National Petroleum Reserve – Alaska? ‘There should be no sacred cows in a petroleum reserve. I would like to see the Bureau of Land Management move with a sense of urgency to prioritize for leasing the most prospective areas for hydrocarbons.

**OCS Leasing:** The recent decision by the present administration to drop Alaska from the five-year 2017-2022 lease sale plan should be revisited by the incoming administration using all available avenues. OCS exploration has an extremely long lead time, and Alaska cannot afford to remain out of the market if it wishes to be competitive in this space.

**404 Permit Mitigation:** Compensatory mitigation fees are a tax on projects, and the costs are reaching the point where they may break the bank. These impacts cut across all industries and all regions of the state. The Army Corps of Engineers and the Environmental Protection Agency should have clear discretion to conclude that compensatory mitigation is not required in every situation. The 1994 Alaska Wetlands Initiative provides a good starting point on a consensus approach that is workable in Alaska. This approach should be enshrined in statute or regulation to make clear that Alaska is, in fact, different from the Lower 48.

**ESA:** The Endangered Species Act has historically been a tool of last resort to protect species on the brink of extinction. The recent court decisions involving ice-dependent species turn these precedents on their head and require federal protection for animal populations that are healthy today but which could possibly be impacted by a warming climate in the far off future. This is a slippery slope, and anti-development groups will undoubtedly file lawsuits alleging the need to protect a never-ending list of plants and animals that are healthy today but potentially at risk from a warming climate 50-100 years from now. The ESA should be modified by Congress to clarify that the law cannot be used under any circumstances to extend protection to species that are presently healthy.

**Coal:** Alaska has some of the largest coal reserves in the world and it is strategically positioned to be a supplier to areas where demand is still growing. The new administration should proactively look for ways to commercialize these resources – coal remains one of the best sources of cheap, clean energy for Alaska communities and businesses, for our many military bases, and for an international market that will be looking to burn coal for many decades to come.

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**RDC’S 37TH ANNUAL ALASKA RESOURCES CONFERENCE**

David Holt, President, Consumer Energy Alliance, Rex Rock, President and CEO, Arctic Slope Regional Corporation, Cory Quarles, Alaska Production Manager, ExxonMobil, and Ethan Schutt, Senior Vice President, Lands and Energy Development, Cook Inlet Region, Inc., confer at the conference. In center, Governor Bill Walker provides an update on the AK LNG Project. At right, RDC Board member Lance Miller, NANA Regional Corporation, and Representative Dan Saddler, visit in the exhibit hall.
Alaskans aim to reverse decision to pull Arctic lease sales from plan

Alaska’s congressional delegation, State officials, North Slope mayors, Alaska Native corporations, and others are looking at ways to reverse President Obama’s recent decision to block new oil and gas lease sales in the Arctic.

In November, the Obama administration removed lease sales in the Chukchi and Beaufort seas that were key parts of a five-year Outer Continental Self oil and gas leasing plan running from 2017 through 2022. One Alaska lease sale in Lower Cook Inlet was retained in the program.

“Our first priority with the new administration would be to re-establish a new five-year plan,” said Kara Moriarty, President and CEO of the Alaska Oil and Gas Association and RDC Executive Committee member. However, Moriarty said the process could take several years to get the Arctic lease sales back into the program.

The Alaska congressional delegation said that eliminating the program’s Arctic sales will yield the weakest offshore development plan in American history and lock up vast resources that are needed to grow the Alaska economy, protect national security, and keep energy affordable for American families and businesses.

The vast majority of Alaskans support the Arctic lease sales and were disappointed in Obama’s decision to remove them from the plan.

The next Congress could pass legislation to reverse Obama’s action, but Senate Democrats are likely to block the bill. However, the plan can be revised through the regulatory process, but changing the final plan would require up to a three-year environmental review.

Alaska joins lawsuit challenging polar bear critical habitat

The State of Alaska has joined several Native corporations, the oil and gas industry, and the North Slope Borough in calling for the U.S. Supreme Court to weigh in on a massive critical habitat designation for polar bears.

“A critical habitat designation covering 187,000 square miles would greatly impact our entire state,” said Alaska Attorney General Jahna Lindemuth.

The petitioners are requesting reconsideration of the 9th Circuit Court of Appeals ruling earlier this year in favor of the designation.

In 2008, the U.S. Fish and Wildlife Service designated polar bears as a threatened species under the Endangered Species Act. The critical habitat designation followed and is larger than the state of California, covering land, sea ice, and barrier islands. The designations will have serious potential economic impacts with regard to future opportunities for oil and gas and other development in the region.

“In places like the North Slope, where the risks associated with undertaking development are acute and the annual window for such projects is small, the associated burdens and uncertainties can keep important development or maintenance projects from even getting off the ground,” Lindemuth said. “That uncertainty is amplified here because, to the best of our knowledge, no previous habitat designation has swept so broadly and encompassed so much territory that is within or immediately adjacent to areas where people already live, work and commute.”

Lindemuth is seeking legal justification through scientific evidence showing a connection between the habitat and protection of bears. She said that didn’t happen for all the areas designated.

EPA’s CERCLA rule will harm mining, manufacturing

U.S. Senator Lisa Murkowski blasted the Environmental Protection Agency’s (EPA) release of a draft rulemaking that would impose new CERCLA 108(b) financial assurance regulations on hardrock mines, a move she says defies strong congressional opposition, ignores the concerns of states and small businesses, and threatens the nation’s mineral security.

“I have opposed the EPA’s efforts to impose new financial assurance requirements on hardrock mines from the start, and have consistently fought their efforts to move forward with this misguided rulemaking,” Murkowski said. “A number of financial assurance requirements already exist at both the state and federal level. This rule is duplicative and will result in an unnecessary burden that damages many of our nation’s mineral producers. It will not result in safer mines or better mine clean-up, but instead fewer mines, lower mineral security and a weaker manufacturing sector. I will work to stop this rule in its tracks and call on the EPA to begin fixing the mess it is creating.”

Industries that will next be subjected to similar requirements by the EPA are chemical manufacturing, electric generation, transmission and distribution, and petroleum and coal product manufacturing.

RDC supports renewal of Pebble land use permit

In a letter to the Alaska Department of Natural Resources, RDC urged renewal of a miscellaneous land use permit for the Pebble Limited Partnership.

“The renewal of this permit for the Pebble project will not only ensure continued exploration of a much-needed resource, but also send a message that Alaska’s rigorous permitting process is predictable and stable as our resources compete for investment around the globe,” said RDC Executive Director Marleanna Hall. “As our state faces a fiscal crisis, it is also imperative projects be allowed to go through the well-vetted permitting process and show investors that Alaska is ‘open for business.’”

Hall said exploration is subject to inspection and compliance. Pebble has been inspected 55 times since 2003, and regulators have found the project to be in compliance.
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