End of decline, new growth foreseen

It was only four years ago when the state was projecting a sharp decline in North Slope oil production to 900,000 barrels a day by the year 2001, bad news for a state where “black gold” funds more than 80 percent of the government’s budget and is the foundation of the state’s economy.

But recent advances in technology, lower costs and new state laws encouraging development of economically marginal oil fields provide new hope that the steady downturn in oil production can be halted and perhaps reversed early in the next century.

The two companies that operate all of the North Slope oil fields, ARCO Alaska Inc., and BP Exploration (Alaska) Inc., are planning a series of projects that will halt the decline and bring new fields on line.

“We call it ‘No Decline After ’99,'” says ARCO’s President Ken Thompson. ARCO sees its share of oil production declining from its current level of 390,000 barrels a day to approximately 340,000 barrels in 1999, then remaining steady until at least 2005. BP is projecting its daily production will increase from today’s 525,000 barrels to 600,000 barrels a day by 2002.

In the past fiscal year, North Slope oil fields produced an average of just under 1.5 million barrels a day. Updated projections now call for production to continue falling through 1999, then begin to move upwards to 1.3 million barrels a day in 2001.

The two major North Slope producers contend that internal cost-cutting and development of new cost-reducing technology have made it profitable to pump oil that was previously uneconomic to produce.

New technology is now being applied to squeeze more oil from the older fields at Prudhoe Bay and Kuparuk, as well as develop new fields like ARCO’s Alpine and BP’s Badami, the fourth new oil field development announced in the last six months. Even West Sak, the North Slope’s huge reservoir of heavy oil that has previously been considered uneconomic to produce, is now expected to yield up to 300 million barrels of crude from one core area.

“Thanks to a friendlier investment climate created by cooperation between the industry and the state and our own technological advances that have enhanced our ability to produce oil once considered inaccessible, we see a number of significant investment opportunities in Alaska that can bring substantial benefits to Alaskans,” said Richard Campbell, President of BP Exploration (Alaska) Inc.

Continuing production decline, however, adds an element of urgency to industry’s task, Campbell noted.

Prudhoe Bay is now producing just under 900,000 barrels a day, down 45 percent from its 1988 peak. Kuparuk production has fallen by more than 10 percent from its 1993 peak.

(Continued to page 4)
Juneau in mid-February to meet with Governor Knowles, the Legislature and the leaders of the House and Senate. The two-day visit began with an extensive briefing by Juneau Mayor Dennis Egan on local development projects and major issues facing Alaska's booming capital city. More than 33 meetings occurred during the visit to address a wide range of land, water, transportation, access and other legislative issues.

More than 20 RDC board members from across Alaska converged on Juneau in mid-February to meet with Governor Knowles, the Legislature and the leaders of the House and Senate. The two-day visit began with an extensive briefing by Juneau Mayor Dennis Egan on local development projects and major issues facing Alaska's booming capital city. More than 33 meetings occurred during the visit to address a wide range of land, water, transportation, access and other legislative issues.

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Juneau Mayor Dennis Egan briefs RDC board members on new development projects in Alaska's capital city.

RDC delegates pose with House Speaker Gall Philips and Senate President Mike Mittole.

Juneau Mayor Dennis Egan briefs RDC board members on new development projects in Alaska's capital city.

RDC board members discuss legislative priorities with Governor Tony Knowles.

The new Mt. Roberts tramway gives visitors a bird's-eye view of downtown Juneau. Goldbelt, Inc., has invested more than $20 million into the tram and a visitor/community center complex high on the mountain. Expect full operations this summer.

Guest Opinion
by Mayor Ben Noseak, North Slope Borough

Diversity is key to healthy North Slope economy

It is often said that the business of America is business. America was built on a foundation of free enterprise and a belief that what is good for private enterprise is ultimately good for America. While there is some debate about whether business needs more or less government regulation, there is really very little debate over the fact that a healthy business climate means a healthy economy and that benefits all of us.

One of the things that strikes people who travel to "hub" communities in the Bush, such as Kotzebue, is the difference in the amount of small businesses available in those communities as opposed to Barrow. Kotzebue, which has a smaller economic base than Barrow, has traditionally had many more successful small businesses. One of the main differences between Kotzebue and Barrow is the presence of the North Slope Borough with its extensive revenues and employment possibilities.

The North Slope Borough has been the driving force in the economy of both Barrow and other North Slope villages since its inception. There was little incentive to begin a private business when government jobs were easily available that provided security, health benefits and retirement plans.

However, the boom or bust history of the State of Alaska's economy provides ample evidence of the interrelated problems in an economy dependent on only one source. The borough's financial support of the Arctic Development Council is one of the ways in which we are trying to assist our local economy in diversifying its base so that it is not so completely dependent on the borough. This will become more and more important as the borough's revenues continue to decline in the future.

I believe that there are two ways in which the borough can support the diversification of our economy while encouraging the creation and long term viability of many small businesses.

One of the ways the borough can help accomplish this is by spending its money locally. When small businesses are dependent on only one source, they are more likely to create viable alternatives to jobs and services. When our employees travel to various North Slope villages, we encourage them to stay in local hotels instead of at borough facilities. I encourage all the departments of the borough to work with the private sector, Arctic Development Council and RDC to create a strong, healthy economy in which private businesses can thrive.

The reality is that the borough will be a major player in the economy for many years to come even with its revenues declining. But by encouraging employees to buy locally, both on a personal and professional level with a means of providing for themselves. I also think the borough needs to work towards privatizing more of its services. By strengthening our local corporations and businesses, we can create a strong, healthy economy in which private businesses can thrive.

One of the ways the borough can help accomplish this is by spending its money locally. When small businesses are dependent on only one source, they are more likely to create viable alternatives to jobs and services. When our employees travel to various North Slope villages, we encourage them to stay in local hotels instead of at borough facilities. I encourage all the departments of the borough to work with the private sector, Arctic Development Council and RDC to create a strong, healthy economy in which private businesses can thrive.

Reclamation regs could hurt small miners

Alaska miners are expressing alarm over new federal regulations that will force them to post bonds covering 100 percent of reclamation costs before mining even begins.

The new regulations, which took effect in March, are intended to raise the health and safety credit for abandoned sites.

Miners, however, warn that the new requirements will make it virtually impossible for small operators to develop their claims because of high up-front costs.

In 1990, the Alaska Legislature passed a bonding law applying to operations on both state and federal land. Under that law, miners pay an up-front reclamation charge of $12.50 an acre.

Miners also pay $37.50 an acre annually to reclaim a site. The new rules could increase bonding to at least $1,000 an acre, perhaps much higher, depending on government, either federal, state or borough, is never a healthy thing to do whether you are depending on it for health care or jobs. Diversification in the economy is critical to an economy's ability to survive the ups and downs of the marketplace.

I am excited at the idea of working with the private sector, the Arctic Development Council and RDC to create a strong, healthy economy in which private businesses can thrive. I ask all borough residents to join with me in this effort by patronizing local businesses whenever possible. Spend your money locally and our economy will have a much brighter outlook.
The Environmental Protection Agency (EPA) has agreed to withdraw a federal arsenic standard for water in Alaska that was 277 times higher than the federal standard. The decision to withdraw the EPA’s rule came in a letter to Governor Knowles from EPA Administrator Becky Gay met with Governor Knowles last month in Seattle to discuss Governor’s efforts to re-evaluate Alaska’s arsenic standards. The Governor’s efforts to re-evaluate Alaska’s arsenic standards will help municipal water and seafood processors fully protect human health and fisheries.

Moving in the right direction

EPA withdraws arsenic standard

The Environmental Protection Agency (EPA) has agreed to withdraw a federal arsenic standard for Alaska and allow the state to use regulations already on the books. The decision to withdraw the National Toxics Rule (NTR) came in a letter to Governor Knowles from the EPA last month. RDC supported the Governor’s efforts to remove Alaska from the NTR. RDC’s Becky Gay met with top EPA officials earlier this winter in Seattle to discuss a number of water quality issues, including the arsenic standards.

In 1992, the EPA imposed an arsenic standard on discharge of water in Alaska that was 277 times more stringent than the state’s drinking water standard of 50 parts per billion. Naturally occurring arsenic is present in many areas of Alaska, but wildlife and other opportunities would be less. The northern route covered by the new rule is more than twice as long as the northern route covered by the old rule. The route is about 400 miles longer than the new route.

The proposed regulation would require the EPA to consider the effects of the proposed standard on the environment, including the potential for human health effects. The proposed regulation would also require the EPA to consider the potential for adverse economic impacts, including the potential for adverse economic impacts on industries that rely on water discharged at the proposed level. The proposed regulation would also require the EPA to consider the potential for adverse economic impacts on industries that rely on water discharged at the proposed level.

North access study

Sitka voters support logging

In a recent special election, Sitka voters rejected an initiative calling for a city policy against clear-cutting old growth forest near town while approving a second measure asking the Forest Service to supply a reliable amount of timber to support industry jobs.

Former Mayor Dan Keck said the clear-cut initiative would have discouraged companies considering doing business in Sitka. “Our economy is hurting right now,” Keck said. “We need to look at something to stabilize the economy.”

Thirsty for change

Thoughts from the President by Scott Thorsen

There is a lot of confusion surrounding the water quality legislation that is now being considered through the Alaska Legislature. HB 51, sponsored by Rep. Norm Roleyberg, addresses a number of problems that have not been solved by previous legislation. The proposed bill is a very long period of time. Some of these problems date back 20 years. Some people I have known have died of old age waiting for these problems to be solved.

HB 51 is one of the most important pieces of legislation to come before the Legislature in many years. Remember last year’s House Bill 342? HB 51 includes many provisions from HB 942, which was passed by the Senate, but was vetoed by Governor Knowles.

This is good legislation, and RDC is working with the Legislature, the Governor, the Department of Environmental Conservation (DEC) and industry to make it a good bill as possible. The DEC is working hard to get the bill’s political climate. RDC is working to get the best possible legislation on the books. In the end, I would be involved with RDC, this is the closest we have come to the goal of solving long-standing water quality issues. Below are some of the most important points contained in this bill:

- HB 51 for the first time will give DEC statutory authority to create mining zones. In its present state, HB 51 does not dictate what the permit limits for mining zones will be or the size of a mining zone. The DEC is currently working on regulations that will define how mining zones will be implemented. Proposed regulations will support the need to keep both the regulated community and the DEC out of court on third party lawsuits challenging legality.
- HB 51 will task DEC to follow federal water quality regulations when a federal standard is relaxed. Currently the federal government requires states to follow federal guidance when these guidelines are not made stricter, but there is no provision on federal or state books to allow for the reverse.
- HB 51 has a provision which allows the DEC to set standards that are stricter than the federal standards, provided there is scientific reasoning to support stricter DEC recommendations. This will allow Alaska to have as much discretion in setting water quality standards, and therefore the federal government will allow.
- HB 51 solves a long-standing problem that plagues miners for years. By allowing discharge of water used in their operations to be used to clean or clean the river, it makes design, discharge, and treatment of their water from turbid and muddy water sources.
- HB 51 would be constructed, and the same sources, effectively they can put it back the same way they got it. Currently, placer miners have to clean the water they plan to discharge to drinking-water standards, but the DEC’s rule states that it is unacceptable and unreasonable, particularly for Alaska’s historic placer mining industry.

There are other provisions in this bill, but these are the major points. This is not draconian legislation, nor will it allow industry to pollute Alaska’s waters. HB 51 provides clear statutory guidance to the regulators and the industry. There is adequate use of water in Alaska. This bill keeps Alaska open for business, which is good for all of us.
Halting the decline

Industry investing in and developing technology to capture new North Slope reserves

(Continued from page 1)

While North Slope oil production has always been dominated by Prudhoe Bay and Kuparuk, which today produce about 80 percent of all North Slope crude, total North Slope production from outside those two mammoth fields — 333,000 barrels a day, has nearly tripled in the past ten years. The increase, however, has not been enough to offset declines at Prudhoe and Kuparuk. As a result, the first objective for ARCO and BP in reversing the downward curve is to stabilize production at Prudhoe and Kuparuk. Utilizing new technology, BP and ARCO believe Prudhoe production can be stabilized at 500,000 to 600,000 barrels a day by about the year 2000. The two companies plan to drill 125 new wells this year in the Prudhoe and Kuparuk fields, the most in any year since the early 1980s. Once production has been stabilized in the two big fields, total North Slope production will begin to rise as new fields are developed.

Over the next ten years, the industry believes it has the potential to add an additional four to six billion barrels to its Alaska reserves. Sixty percent of those added reserves are expected to come from the application of enhanced oil recovery techniques in existing fields. The industry is also aggressively targeting other opportunities, including "satellite" accumulations of untapped pools in and around fields already in production. ARCO and BP believe there are dozens of satellites on the North Slope which could yield total reserves of one billion barrels of oil.

An example of a satellite accumulation is the Tarn prospect, a pool of high-quality crude on the Kuparuk oil field's southwestern edge. Tarn could contain as much as 200 million barrels of oil.

In the four new development prospects announced over the past six months, plus new work underway at Kuparuk, more than one billion barrels have been added to the North Slope's total reserves, not including the oil that is likely to be produced from the satellite accumulations yet to be tapped. As ARCO and BP pursue new Alaska opportunities, they have put their money on the line, substantially increasing their capital budgets for Alaska projects. BP itself plans to increase capital spending by $1 billion, to $3.5 billion over the next five years, to extend its infrastructure outward from the existing oil province and develop new prospects. ARCO has increased its spending by $500 million. In early March, BP announced plans to extend the 120-million barrel Badami oil deposit, 35 miles east of Prudhoe Bay. The $300 million project should be in production by late next year. BP will build a 26-mile pipeline to carry Badami crude west to the Endicott field, where it will connect into existing infrastructure.

Shortly after the Badami announcement, BP and Chevron confirmed an oil discovery on their Sourdough prospect at ANWR's western border. Current information indicates Sourdough may contain at least 100 million barrels of oil. Last fall ARCO announced it will develop the 300-million barrel Alpine field, about 60 miles west of Prudhoe Bay. At the same time, BP announced it would proceed with its Northstar field, but a lawsuit has delayed that project.

The industry is also looking toward the National Petroleum Reserve-Alaska with renewed interest. Leasing could begin in the area by August 1998 pending completion of environmental studies. All this activity bodes well for Alaska and its economy over the long haul, even though downsizing in the industry continues to day to reflect continuing declines in production at Prudhoe and Kuparuk. Over the next few years, the industry will be consolidating facilities and reducing staff to the contractor work force at Prudhoe.

"These are painful but necessary steps that will help us avoid driving costs up toward levels we consider uncompetitive," said John Campbell.

"While there will be fewer BP staff and direct contractors, we will see a net increase in the number of people working on BP business in Alaska because of our new investments and new projects made possible by our initiatives."

Ketchikan pulp mill closes

The U.S. Forest Service signed off on its agreement with Ketchikan Pulp Company to supply enough timber to the company's two Southeast Alaska sawmills to keep them open for three more years. The agreement, however, signals the end to the Ketchikan pulp mill, which shuts down this month.

The recent agreement saves several hundred jobs at KPC's sawmills at Ward Cove and Metlakatla, but some 500 Alaskans will lose their means of earning a living when the pulp mill closes. Timber employment has plummeted throughout the region as federal foresters have closed more than two-thirds of the commercial timber base in the Tongass to logging. Alaska Pulp Corporation closed its pulp mill in Sitka and a large sawmill in Wrangell several years ago, putting hundreds out of work.

As part of the KPC sawmill agreement, parent company Louisiana Pacific Corporation will get $140 million from the government to settle litigation by KPC. The company said the federal government unilaterally altered its long-term timber contract, tying up wood from the Tongass and contributing to the closure of the pulp mill. KPC could not justify costly upgrades to the pulp mill without assurances of a stable timber supply.

KPC President Ralph Lewis said the sawmill agreement gives the company time to start over following the shut down of Alaska's last pulp mill.