Competing for investment

North Slope capex vital in growing the economy

The recent major discoveries of oil in the Nanushuk formation on the North Slope could mark a major turnaround in oil production, but Alaska needs to compete with global oil markets to attract the billions of dollars in capital expenditures (capex) necessary to develop the new prospects.

“You better be sure that the price of oil, delivered to market, is less than everybody else’s,” said Damian Bilbao, Vice President, Commercial Ventures, at BP Alaska. “That’s why we continue to focus on how do we make Alaska’s oil as competitive as possible.”

Bilbao was one of a number of speakers at the Resource Development Council’s 38th Annual Alaska Resources Conference in Anchorage last month speaking on the need for Alaska to compete in global markets for the billions of dollars necessary to develop new prospects in oil and other industries to grow Alaska’s economy out of recession.

The State took a major step forward with the passage of SB 21 in 2014. Following the tax change, a steady decline in oil production of up to 8 percent per year flattened out and is now poised to increase for a third consecutive year. In 2015, daily production flattened out at 500,000 barrels per day, but has increased to over 530,000 bpd this year.

Bilbao warned that reverting to non-competitive tax policies could usher back a decline rate of 6 percent annually. Meanwhile, potential game-changing new oil plays and other projects in existing fields could be shelved if industry investment is directed elsewhere to lower-cost jurisdictions.

Capex on the North Slope is the most important factor in growing Alaska’s economy, said Sam Mazzeo, Senior Vice President and Alaska Commercial Banking Manager, at Wells Fargo. Mazzeo pointed out that capex funds exploration, infrastructure, and oil field development that ultimately leads to increased production. Moreover, injections of capex into the economy creates

SLOPE CAPEX continued on page 2

(Photos by Judy Patrick)

ALASKA INDUSTRY OUTLOOK FOR 2018

Industry panelists expressed both optimism and caution in a panel discussion at last month’s Alaska Resources Conference on the outlook for Alaska’s resource industries in 2018.

Ralph Samuels, Vice President of Government and Community Relations for Holland America Princess Cruises, said Alaska continues to be a top destination for cruise ship travelers. He said two million people visited Alaska this year and spent, excluding transportation costs, an average of $991 per person.

Samuels said demand is strong and there is more room for continued growth in the cruise ship industry, but new and costly infrastructure improvements, like roads and docks, are needed to sustain long-term growth.

Samuels warned the Legislature could create a balanced budget plan that is anything but balanced for tourism, one of the few bright sectors of the economy.

“If they drive up costs for the business sector, especially in the short term, it could hurt the private sector,” Samuels said. “We need to be very careful how we fix the problem.”

Other panelists from across Alaska’s resource industries agreed, pointing out that if new tax and regulatory policies drive up costs in the private sector, the economy will shrink, exacerbating the fiscal crisis. They said the best way to end the state’s multi-year recession is to grow the economy by increasing production, no matter the industry, resulting in a larger revenue pie for both the public and private sector.
a cascade of activity across the economy known as the multiplier effect, resulting in additional jobs.

To illustrate his point, Mazzeo used a profile of industry capex and associated levels of oil production from 2013 to present. During a period of relatively high oil prices between 2013 and 2015, annual North Slope capex averaged $3.6 billion, growing from $3 billion and peaking at $4 billion in 2015. The increase in capex led to the increase in oil production in 2016, which has continued through this year.

To keep Alaska production rising and grow the revenue pie for both the State and industry, “we need higher capex on the Slope and we need to be competitive to do that,” Mazzeo said. “With the State’s tax laws having been changed every three years on average over the past 60 years, tax stability is now needed.”

Mazzeo also noted Alaska needs a long-term fiscal plan to give industry the confidence it needs in allocating capital expenditures to Alaska over the long haul. He warned that the lack of a fiscal plan creates a lot of uncertainty over the impact of future tax revisions, encouraging a shift in investment opportunities outside Alaska. “People need confidence in Alaska, to invest in Alaska,” Mazzeo said. “Even a modest increase in North Slope capex would provide significant benefits to the economy, but Alaska must compete for a larger share of North American capex,” Mazzeo added.

In a recent presentation in Fairbanks, Scott Jepsen, Vice President of External Affairs and Transportation at ConocoPhillips Alaska, said the State’s current tax structure is now competitive and is a major factor behind his company’s recent multi-billion dollar investments and imminent new production. However, he cautioned that “the big issue is trying to stay competitive versus the Lower 48.”

ConocoPhillips, Alaska’s largest explorer, expects to drill dozens of new wells in multiple fields over the next five years. Among those projects are Mooses Tooth 1 and 2 in the National Petroleum Reserve-Alaska and Willow, which is expected to produce up to 100,000 barrels per day. The company is expecting to drill five exploration wells in 2018.

Mazzeo, the Wells Fargo banker, recommended the construction of a permanent year-round road between Kuparuk and points west into the energy reserve to promote access, lower the cost of exploration and development, and eliminate the need to build annual ice roads. He said attention also needs to be given to the lengthy time it takes for industry to obtain permits for North Slope projects compared to those elsewhere.

Mazzeo urged the State to restore investor confidence in Alaska by addressing the deferral of payments due from oil production tax credits.

DONLIN GOLD NEARS MILESTONE PERMITTING

It’s been a long haul, but the permitting stage of the Donlin Gold project is nearing completion. The U.S. Army Corps of Engineers expects to issue the final Environmental Impact Statement next March, followed by a Record of Decision by summer. We have one key state permit in hand, with others expected by the end of 2018.

Thanks to everyone who helped us through the EIS process. We believe Donlin Gold is a world-class project that could prove transformational for the residents of the Yukon Kuskokwim region.
A Message from the Executive Director

As we wrap up this year, I am thankful for many, many things. In a short, not complete list, I begin by saying I am thankful for working with an incredible group of people.

Carl Portman moves on to his 37th year at RDC, Kati Capozzi moving to year six, our contracted bookkeeper, April Cooley, going into her seventh, and me completing my 11th year. Combined, we have over 60 years of RDC work under our belts.

In particular, our proudest accomplishments for 2017 include:

• worked closely with sister organizations to form Stand for Alaska
• filed Bearded seal amicus brief
• sent action alerts and provided public testimony on a wide range of issues and projects across Alaska’s resource industries
• submitted dozens of in-depth comment letters to state and federal agencies on critical regulatory issues impacting access to and the responsible development of Alaska’s resources
• provided comments on state and federal land management plans from the arctic to southeast Alaska
• published six newsletters to inform policy makers, the public, and our members on the latest issues and projects before Alaska’s resource industries

The RDC board participated and supported special events:

• fly-in to Juneau in January urging legislators to develop a sustainable long-term fiscal plan while opposing additional tax changes on Alaska’s resource industries
• Women in Resources legislator reception in Juneau
• board outreach trip to Prudhoe and Utqiagvik

To note as well, our membership events:

• 15 breakfast forums averaged 120 attendees
• June annual meeting lunch saw over 700 participants
• the November conference reached over 750 registrants

All of these issues, events, and projects would not be done without knowing we can and we do make a difference.

Our energies are spent working to grow Alaska through responsible resource development, but we could not do it without the support and participation of our membership.

As we move on to 2018, there is so much to be hopeful for

• the defeat of the poorly written fish habitat initiative
• a productive, efficient legislative session
• a state fiscal plan which does no harm to the private sector
• a third year-over-year increase of throughput in TAPS
• the large oil finds on the North Slope
• the opening of ANWR to oil and gas leasing

As we wrap up 2017 and prepare for next year, I want to thank our members, the staff, and the board for all that is given to RDC.

Editor’s note: To sponsor a special event, or to get more information, please contact staff. A detailed industry-by-industry summary of our past 12 months is provided in RDC’s Annual Report, which is available online.
RDC conference: Putting new mines into production

Alaska is one of the richest mineral jurisdictions in the world and just as the state is in much need of diversifying its economy, the mining industry has the potential to play a major role in building a stronger economy, mining executives pointed out in a panel on putting new mines into production at RDC’s Alaska Resources Conference last month.

In an earlier presentation at the conference, Governor Bill Walker said, “We have six large scale mines in Alaska, we would like to have 12.”

While those remarks were welcomed by industry, executives said the State will need to do more to attract global mining investment in Alaska.

“We could have 12 mines by 2039 – that’s a big goal, but I think it could be done if the government will work corroboratively with the mining industry,” said Greg Beischer, President of Millrock Resources. “To make it happen, there has to be stability, certainty, and good policy,” Beischer said.

Hecla Greens Creek Mining Government and Community Relations Manager Mike Satre agreed, “Everybody needs to play by the same rules and those rules can’t change when you are in the middle of the game.”

Both Satre and Beischer expressed concern that the State’s fiscal situation could have a negative effect on current industry tax policy and permitting, impacting future investment in new mines.

The miners noted that in the past Alaska has maintained a good reputation for mine permitting which has helped offset the longer and more complex federal process. While the Trump administration is working to streamline the federal process, State budget cuts could affect the government’s ability to do thorough and timely processing of permits.

With regard to tax policy, Satre warned industry is concerned higher taxes could force industry investment out of the state.

The lack of infrastructure and power across most of Alaska is also a big factor in bringing new mines into production, panel participants explained.

“You either need to have world-class size and metal-grade or you have to have access to power and infrastructure,” Satre said. While the State cannot afford the cost of building roads and other infrastructure across vast remote areas to access mineralized areas, the Alaska Industrial Development and Export Authority (AIDEA) has the ability to fund such efforts, pointed out executive director John Springsteen.

AIDEA built the highly successful DeLong Mountain Transportation System, a road and port facility that delivers five percent of the world’s zinc from Red Dog to overseas markets.

AIDEA is currently in the permitting process to build a 211-mile road to the Ambler Mining District in northern Alaska. Much like the Red Dog port and road, the Ambler road would be paid for by a toll on metal-rich concentrates.

If Alaska wants more mines to help create more jobs and increase its revenue base, government leaders need to make it clear mining is welcome in this state, the panelists said. “It is time to invigorate the mining industry – it is time to make it a cornerstone of a comprehensive economic development plan,” Beischer said.

Satre agreed that Alaska needs to be more pro-active in ensuring the development of new mines. With the right policies, Satre sees a bright future for mining in Alaska.

“I am incredibly optimistic about the future of mining in Alaska,” he said. “We have some great projects in the pipeline and hopefully we can bring those into fruition and don’t have a production gap in the future, and we can contribute to the fiscal of the state.”

2018 Alaska industry outlook continued from page 1

John Sturgeon, President of Koncor Forest Products, said for the first time in a decade, there is optimism in the forest industry that substantial changes will occur in federal policy to free up more timber in the Tongass National Forest for struggling sawmills. He said domestic and foreign market dynamics are strong, which should serve as a tailwind for the industry.

Karen Matthias, Executive Director of the Council of Alaska Producers, reported that commodity prices continue to improve after a four-year bear market, resulting in a positive increase in investor interest and exploration. She pointed out the need for copper in green technologies and infrastructure would require a 150 percent increase in copper demand to limit climate change to two degrees celsius.

Despite mining having huge growth potential in Alaska, threats to the industry remain, Matthias noted. The state’s fiscal crisis and the proposed fish habitat ballot measure are serious threats, she added.

Stephanie Madsen, Executive Director of the At-Sea Processors Association, said federal fisheries off Alaska’s coast are very healthy, but global markets have been a headwind.

Kara Moriarty, President and CEO of the Alaska Oil and Gas Association, noted her industry is on its way to a third consecutive year of increased production, but pointed out that this year the industry endured its seventh change in tax policy in 12 years.

All panelists warned the potential fish habitat ballot measure would be devastating for the state’s economy and have a significant impact on the quality of life in Alaska, especially rural areas. Madsen said the current regulatory system to protect fish is adequate and noted her industry does not support resource management by initiative.

Matthias warned that if the ballot measure were to pass, new mines would not be permitted under the new regulatory regime and existing mines could be shut down.

Moriarty said it is conceivable that new regulations arising from the measure could require over 700 major permits for the AK LNG Project. She called the proposed ballot measure extremely broad and troubling for her industry. Sturgeon said the measure would severely impact his industry, asking, “What’s broken?”
The 38th Annual ALASKA RESOURCES CONFERENCE

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RESOURCES DEVELOPMENT COUNCIL
Growing Alaska Through Responsible Resource Development

DECEMBER 2017 RESOURCE REVIEW
Governor Bill Walker and First Lady Donna Walker visit with students from Alaska Resource Education at the RDC Conference in Anchorage.

Labor economist Neal Fried joins industry panelists and RDC president Eric Fjelstad at the head table. See conference presentations at akrdc.org.

ConocoPhillips is planning to drill several new wells this winter, said Lisa Bruner, the firm’s Vice President North Slope Operations.

Keynote speaker Daniel Simmons, Acting Assistant Secretary in the U.S. Department of Energy, visits with moderator Scott Jepsen, Vice President External Affairs and Transportation at ConocoPhillips Alaska, Inc.

Keynote speaker Rex Rock, Sr. is Chairman, Voice of the Arctic Inupiat. See speech at akrdc.org.


Hundreds attended the Alaska Resources Conference and trade show at the Dena’ina Convention Center in Anchorage November 15-16.

Vince Beltrami, President, Alaska AFL-CIO, participates in a panel on what will it take to put more oil in TAPS.

Aaron Schutt, Doyon Ltd., Barbara Huff-Tuckness, Teamsters Local 959, Deantha Crockett, Alaska Miners Association, and Keith Meyer, Alaska Gasline Development Corporation, discuss impacts of the proposed fish habitat ballot measure on Alaska's resource industries and the economy.

Pat Foley, Caelus Energy Alaska, LLC discusses a potential huge discovery at Smith Bay. Photos by Judy Patrick.
RDC expresses its support for the Ambler Mining District Industrial Access Project at a public hearing last month in Anchorage. In testimony before the U.S. Bureau of Land Management, RDC executive director Marleanna Hall urged the agency to allow the project to proceed through the environmental and economic impact review process. She noted the process will give Alaskans ample time to review the project’s documents and to provide input on the plans.

While the proposed 211-mile industrial road from the Dalton Highway to the Ambler Mining District has not been formally proposed, and no mine plan has been submitted for permitting, Hall urged Alaskans to support the process to help determine the best routing, terms, and conditions for a potential permit.

The proposed road would be modeled after the highly successful DeLong Mountain Transportation System public-private sector partnership that provides access to the Red Dog Mine in northwestern Alaska.

Hall pointed out the potential benefits that could come with the project, including jobs, training and lifelong skills, economic diversification, a new source of state revenue, and other opportunities.

Senate passes legislation to open ANWR

U.S. Senators Lisa Murkowski, Dan Sullivan, and Representative Don Young praised the passage of H.R. 1, the Tax Cuts and Jobs Act, which includes Murkowski’s title opening a small portion of the non-wilderness 1002 Area of the Arctic National Wildlife Refuge (ANWR) to responsible energy development.

The Alaska congressional delegation said the passage of the bill is a critical milestone in its efforts to secure Alaska’s future. “Opening the 1002 Area and tax reform both stand on their own, but combining them into the same bill, and then successfully passing that bill, makes this a great day to be an Alaskan,” said Murkowski.

“Today’s historic vote is yet another milestone in bringing us that much closer to realizing a decades-long dream of opening the 1002 area of ANWR,” Sullivan said. “Although there is still work to be done, I’m optimistic we will succeed on the merits of our policy and the passion of our people. Allowing development in the coastal plain, an area specifically set aside for exploration and development, is a win for Alaska and a win for the nation.”

“I applaud the Senate for passing this much-needed legislation to reform our tax code and unlock more of Alaska’s energy potential,” Young said. “Alaska is home to a vast amount of natural resources, and through the development of ANWR, we will strengthen our economy by creating new jobs and generating new revenue. I am proud of the work that has been done by our Senators to overcome complex parliamentary hurdles and retain this important language in the bill. As we move forward, particularly through the Conference Committee process, I will work with my House colleagues to ensure Alaska’s interests are protected.”

RDC supports EPA’s withdrawal of proposed determination on Pebble

In comments submitted to the Environmental Protection Agency (EPA), RDC supported the agency’s proposal to withdraw the July 2014 Proposed Determination on the Pebble Project in southwest Alaska.

“A preemptive decision, prior to permit or project application and completion of the National Environmental Policy Act (NEPA) process, is unacceptable, whether it be approval or denial of any project in any industry,” said RDC executive director Marleanna Hall.

Hall said the pre-emptive Proposed Determination was a clear overreach and an attempt to assess the effects of a potential mining project without the project plans. The EPA’s proposal to withdraw the pre-emptive decision will allow the project to be fully evaluated after project plans are put forward.

Hall noted the withdrawal of the Proposed Determination does not remove the EPA from the process, it only rights a wrong – removal of the pre-emptive decision.

“The fate of a project, including Pebble, cannot be rationally decided without consideration of the full social, economic, and environmental impacts of the project,” Hall said. “This information will be developed through the rigorous NEPA process.”

Earlier this fall, Tom Collier, CEO of the Pebble Partnership, rolled out plans for a much smaller, environmentally-optimized mine. Speaking at an RDC breakfast meeting in October, Collier said “I believe that we are going to be able to construct and operate a mine that will change people’s perception about what can be done.”

The new plan for Pebble reduces the project’s footprint to approximately 5.4 square miles, smaller than Ted Stevens International Airport in Anchorage. The new plan would land the project in the ballpark or close in size to what the Obama-era EPA considered environmentally acceptable.

Ella Ede to lead Alaska Resource Education

Life-long Alaskan Ella Ede has been appointed the new executive director of Alaska Resource Education (ARE).

Ede has over 25 years of experience working with the oil and gas and mining industries. Her experience includes environmental management, NEPA analysis, stakeholder engagement with the indigenous people of Alaska, and public relations on large Alaska projects. She was previously Project Manager at Fairweather Science.

ARE offers a comprehensive collection of K-8 (adaptable 9-12) lessons on energy, mineral and forestry resources in Alaska schools. Its curriculum has been correlated to the Alaska State Science Standards for the greatest ease of use and accessibility for educators. ARE has been in operation since 1982.
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