RESOURCE *review*

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Grappling with low oil prices and federal obstacles to Alaska development

By Kara Moriarty

"Everything old is new again." That statement is in reference to the all-too familiar reality of grappling with low oil prices and federal obstacles to development. The speed and degree of the decline in oil prices took most of us by surprise, and not in a good way. President Obama's recent moves to further restrict ANWR and Offshore drilling is also familiar and unwelcome news.

What gets lost in the discussion about the state's budget shortfalls and resulting spending cuts is a gratifying reality: Alaskans' decision to keep the new tax law provided an unexpected benefit to citizens – more tax dollars. Because the new tax law raised the base tax rate, the State of Alaska is collecting more in revenue than it would have if we had repealed the law and returned to the old one, ACES. Recently, financial analysts told members of the Legislature's Senate Finance Committee that indeed, the new tax law generated an additional $380 million this fiscal year, and, assuming oil prices stay the same, another $550 million next year.

Some have argued that despite the additional tax revenues, Alaskans are still getting a raw deal because the state is giving away more in tax credits than it receives in revenues. If you look only at production taxes, that statement is true. But when you add in all the taxes the industry pays to the state via property taxes, corporate income taxes, and royalties, then the revenues received far exceed any tax credits. Add in the fact that tax credits are working as designed to pull more oil and gas out of Cook Inlet, where most of Southcentral Alaska gets its lights and heat, and to incentivize the new or small oil companies now doing business on the Slope, and the credits are still wise policy.

I spent a fair amount of time last summer debating those with the Yes on 1 campaign, who labeled the new tax law a "giveaway" to oil companies. Their arguments were solely focused on production taxes, and what they thought the State of Alaska would lose in revenues. Given what we know now, it turns out that keeping ACES would have been the real giveaway, to the tune of almost a billion dollars over two years, according to analysts. I imagine even critics of the tax law are breathing a private, collective sigh of relief that the new tax law was allowed to stand.

One of the messages I have been repeating for years is that a lot of the state's problems would be solved with more oil moving through TAPS. A lot of the excitement around the new tax law was the belief that a more attractive investment climate would lead to new projects, which would lead to more oil. After all, in a low oil price scenario, it would be helpful to make up some portion of the shortfall on volume. Well, for the first time in decades, the Department of Revenue predicts oil production decline first to flatten out, then actually increase in the next few

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Despite low oil prices, North Slope explorers and producers are moving forward with new projects, encouraged by oil production tax reform. As a result, production is expected to increase.

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The Resource Review is the official periodic publication of the Resource Development Council (RDC), Alaska's largest privately funded nonprofit economic development organization working to develop Alaska's natural resources in a responsible manner and to create a broad-based, diversified economy.

Past issues of the Resource Review (1978-2014) are available at akrdc.org.

Alaskans are grateful for what we have

In September of 2013, five months after President Obama appointed former REI CEO Sally Jewell as Interior Secretary, Jewell came to Alaska and met with the RDC board along with the board of the Alaska Oil and Gas Association (AOGA). At that meeting, we tried to frame the Alaska context, the promises of the statehood compact and the compromises in the Alaska National Interest Lands Conservation Act (ANILCA). Unfortunately, the Secretary snipped that we should be "grateful for what you have."

I think it's time, as the Secretary suggested some 16 months ago, to reflect on how grateful we are for what we have. In recent weeks the Obama administration has announced its intent to push for Wilderness designation in the 1002 area, the eight percent of ANWR on the coastal plain with an estimated 10 billion barrels of recoverable oil. Add to that ongoing permit delays in the National Petroleum Reserve Alaska and additional withdrawals of the offshore arctic to exploration.

Our oil dependent economy is under strain from a global oil price collapse of historic proportions, and the federal government is acting like a tyrant, locking away lands and removing the very means Alaska has to sustain itself as a state. Given all this, here are the reasons why I remain grateful for what we have:

> **"So call me crazy Madam Secretary, in spite of your flawed and disrespectful policies, Alaskans remain not only grateful, but we are more united and energized than I've witnessed in my 34 years here."**

• Alaskans are grateful for the commitments of Congress in the ANILCA legislation of 1980 that putting two-thirds of the federal lands in Alaska in conservation status is enough, and that "the need for more parks, preserves, monuments, wild and scenic rivers, and refuges has been met."

• We are grateful that the current balance of power in the U.S. House and Senate will make it virtually impossible for the President and Secretary Jewell to implement their ill conceived Wilderness designation of the 1002 area, one of our nation's most important and strategic energy assets.

• We are grateful that in spite of having a disproportionate share of federal Wilderness, more than all other states combined, Alaska still is blessed with abundant resources on the remaining lands. If we gain access to these lands, they could support our livelihoods, help fund our children's education, support our communities, reduce poverty and grow our middle class.

• We are grateful that the 1002 area President Obama and Secretary Jewell seek to lock up in perpetuity holds enough oil potential to keep Air Force One flying for decades.

• And speaking of Air Force One, we are grateful that because the President taped his video announcement on the 1002 Wilderness effort from this elaborate jet, the irony and hypocrisy of locking up billions of barrels of domestic energy reserves while burning over 176 gallons of jet fuel and emitting 3,714 tons of carbon dioxide per hour will not be lost on the American people.

• We are grateful that in spite of our differences with our Federal overlords, Alaskans still graciously provide Alaska produced jet fuel to refill Air Force One whenever the President passes though our great state.

• We are grateful that through American ingenuity and continued investment, Alaska's oil and gas producers have developed the means to safely develop ANWR oil on a footprint of only about 2,000 acres.

• We are grateful that in spite of predictions that oil and gas development would doom the Central Arctic Caribou herd, the herd's population has increased over ten fold, while 17 billion barrels of oil have been safely produced and transported nearby.

• We are grateful that ANWR has enough oil that could be produced to displace oil from jurisdictions that disregard human rights, degrade women and threaten our national security for decades.

• We are grateful that we are united as Alaskans in our unwillingness to tolerate a federal government that wants to treat Alaska like a colony rather than a sovereign state.

• We are grateful that Governor Bill Walker, our state House and Senate from both sides of the aisle, and our business and Alaska Native leaders, are all on the same page in our dismay of Secretary Jewel's misinformed decree.

• We are grateful that our Alaska delegation, Senators Murkowski and Sullivan, and Representative Young are ready and willing to use all of their power and influence to ensure the Secretary's misguided policies do not win congressional approval.

• We are grateful that Senator Murkowski chairs the Senate Energy and Natural Resource Committee and the Interior Appropriations Subcommittee, and we are confident that if necessary she would use her authority over the Secretary's budget to command her attention.

• We are grateful Alaskans are strong, unified, and more determined than ever to hold the federal government accountable to the opportunities granted to Alaska as a sovereign state under equal footing with 49 others.

So call me crazy Madam Secretary, but in spite of your flawed and disrespectful policies, Alaskans remain not only grateful, we are more united and energized than I've witnessed in my 34 years here.

Competitive tax structure to boost production, soften blow of low oil prices

(Continued from page 1)

years. It takes a lot of work and industry investment to turn decline around, especially in aging fields, but the analysts at Revenue say the expected gain is because of increased company spending on North Slope projects.

Then-Acting Revenue Commissioner Marcia Davis said in a December report, "Given the forecast in investment trends, we expect that oil production should remain above 500,000 barrels per day for the next three fiscal years. Greater investment by the oil and gas industry on the North Slope and solid performance of state investments make Alaska's overall financial health sound."

Advocates of tax reform also said it would be much more likely that companies would invest more in Alaska if the financial framework improved. So far, that rule of economics is bearing itself out. Despite low oil prices, companies are still responding to the new tax policy with new projects. Newcomer Caelus Energy Alaska is preparing to spend a billion dollars on a new field that will produce thousands of barrels of new oil every day. Repsol is still moving ahead with its drilling program, and legacy producers like BP continue to advance their projects

"A prolonged period of low oil prices will present new challenges, but for now, projects announced since tax reform passed are still advancing."

– Kara Moriarty

on State-owned land where the tax law applies. A prolonged period of low oil prices will present new challenges, but for now, projects announced since tax reform passed are still advancing.

In a remarkable display of what a competitive tax structure will do, the State of Alaska recently held the largest North Slope lease sale in two decades. Numerous companies, both familiar and new, bid for the opportunity to explore and produce oil on the North Slope. It's not difficult to see the link between a new tax policy that makes Alaska a good place to do business, and a lease sale to remember. Companies are responding to the policy, as we hoped they would.

In spite of all this positive momentum, we Alaskans are up against a familiar obstacle, the federal government and its unrelenting appetite for Alaska's resource-rich lands. In the span of just a few days, the Obama administration took steps to further restrict federal offshore oil leases, and to ban permanently any development in ANWR's 1002 area, the very portion of the refuge that was set aside for such a purpose. Alaskans are right to be outraged by these decisions, as our very economic future depends on our ability to safely and responsibly develop our own resources.

I am confident that by working together, we can make our voice heard and chart a course toward resource-based economic prosperity for all Alaskans.

Kara Moriarty is President and CEO of the Alaska Oil and Gas Association. She is also a member of the RDC Executive Committee.

Alaska oil patch resilient at lower oil prices

Alaska's oil patch will likely prove more resilient in 2015 than the booming shale plays in North Dakota and Texas where some are forecasting a sharp drop in drilling activity. The near-term impacts on Alaska's oil and gas industry from a 50 percent-plus plunge in oil prices since last summer should be less severe than in other states, according to Tim Bradner, a highly regarded Alaska business and energy reporter.

"For one thing, there are some major projects in construction, like Point Thomson and CD-5 that won't shut down," said Bradner. "Other projects just now launched will continue, like the new Mustang field development by Brooks Range Petroleum."

Bradner also noted that a number of projects – inspired by oil tax reform –are moving forward. New drill rigs contracted by ConocoPhillips in 2015 and 2016 will arrive as planned, and will go to work. Repsol is planning three exploration wells with three rigs working. Great Bear Petroleum is still planning three test wells to explore shale oil resources south of Prudhoe Bay.

Falling oil prices have not deterred Hilcorp Alaska LLC from applying to drill in Arctic waters. The company recently filed a development and production plan for federal Beaufort Sea lands that it purchased from BP.

At this point, industry capital spending plans remain on track with record expenditures anticipated for FY 2015 and FY 2016. Spending on projects is estimated at $4.5 billion in the current fiscal year and $4.8 billion next year.

Alaskans react to recent actions to shut down oil-rich areas

Alaskans from Barrow to Washington, D.C. continue to push back against recent actions by the Obama administration to shut down vast areas of Alaska's arctic to oil and gas development.

Alaska's congressional delegation and Governor Bill Walker denounced President Obama and Interior Secretary Sally Jewell for launching what they call an unprecedented assault on Alaska that will have long-lasting effects on the state's economy.

Last month, the administration proposed designating 12.8 million acres of the Arctic National Wildlife Refuge (ANWR) as Wilderness, including the coastal plain, and forever blocking oil development on 9.8 million acres of the Chukchi and Beaufort Seas.

"When you look at it all together – between the recommended Wilderness designations for ANWR and the Arctic offshore withdrawals – Alaska has lost more than 22 million acres of land and water where energy could be produced," said Senator Lisa Murkowski, Chairman of the Senate Energy and Natural Resources Committee.

The administration's revised long-range plan for ANWR would designate 98 percent of it as Wilderness, blocking the potential development of 10 to 16 billion barrels of oil beneath the coastal plain, considered America's most promising onshore conventional oil and gas prospect. The permanent offshore closures would preclude the potential development of billions of barrels of oil.

In a landmark 1980 compromise, ANWR was expanded from nine million acres to 19 million acres through the Alaska National Interest Lands Conservation Act (ANILCA), which also singled out 1.5 million acres of the coastal plain for its rich oil and gas potential. Eight million acres of ANWR were designated Wilderness at the time, but 1.5 million acres on the coast were excluded and left available for potential development. With advances in technology, development could be confined to a fraction of one percent of the refuge.

Moreover, Congress stated in Section 101 of ANILCA that the new lands act represents a proper balance between conservation and development and no more land would be withdrawn for conservation purposes by the federal government.

The administration's efforts to designate additional Wilderness in ANWR is dead on arrival in Congress. Only Congress has the power to authorize opening the plain to drilling or shutting it down permanently through a Wilderness designation.

Since the 1980s, there has been a stalemate over the coastal plain. In 1995, President Bill Clinton vetoed a measure that would have opened it to leasing. Years later Senator Ted Stevens was nearly successful in opening it to leasing, winning a majority vote in the Senate, but the effort fell several votes short of the 60 needed to head off a filibuster.

The congressional delegation and Governor Walker said the proposed Wilderness overlays in ANWR, the permanent closure of vast offshore areas, and severe restrictions and mitigation measures on oil development in the National Petroleum Reserve – Alaska amounted to "declaring war on Alaska's future."

"What's coming is a stunning attack on our sovereignty and our ability to develop a strong economy that allows us, our children and our grandchildren to thrive," Murkowski said. "It's clear this administration does not care about us, and sees us as nothing but a territory. The promises made to us at statehood, and since then, mean absolutely nothing to them."

Senator Dan Sullivan said, "This decision disregards the rule of law and our constitution and specifically ignores many promises made to Alaska in ANILCA."

Congressman Don Young also blasted the administration. "This callously planned and politically motivated attack on Alaska by the Obama administration is akin to spitting in our faces and telling us it's raining outside. This latest move is in clear violation of ANILCA's 'no more' clause."

Governor Walker noted the federal administration's decision comes at a time when the state is drawing down more than $10 million from savings every day due to low oil prices and low production, despite having more than 40 billion barrels of untapped resources, mostly in federal areas where oil and gas activity is restricted. "It's clear that our fiscal challenges in both the short and long term would benefit significantly from increased oil production," Walker said.

The ANWR coastal plain looking east near Point Thomson.

Juneau lawmakers were also upset with the federal administration's ANWR announcement. "President Barack Obama and his lieutenants will permanently harm our people and all Alaskans with his colonial attitude and decision-making," said Representative Ben Nageak of Barrow.

North Slope Borough Mayor Charlotte Brower said last month's announcement represents the worst of Washington politics. "We would like to invite President Obama and Secretary Jewell to travel to ANWR and meet with the people that actually live there before proposing these types of sweeping land designations. They might learn that the Inupiat people, who have lived on and cared for these lands for millennia, have no interest in living like relics in a giant, open-air museum," Brower said.

Alaska Senate President Kevin Meyer noted, "Promises were made at statehood to give us our land and resources to develop for the maximum benefit of Alaskans. This decision effectively negates that promise and will permanently lock up our economic future," he said.

"The president just doesn't get it, or he does get it and doesn't care about the will and voice of Alaskans," said House Speaker Mike Chenault. "President Obama's blatant disregard for the Alaska Natives on the North Slope should not be allowed to continue."

Editor's Note: Secretary Jewell attended an Alaska Federation of Natives retreat in Kotzebue three weeks after the ANWR announcement.

New OCS plan closes off 9.8 million acres of Arctic

Two days after the President Obama said he planned to ask Congress to designate 12.8 million acres of the Arctic National Wildlife Refuge (ANWR) as Wilderness, including the energy rich coastal plain, his administration moved to block exploration and development from occurring on 9.8 million acres within the Chukchi and Beaufort seas.

Combined, the ANWR coastal plain and the Outer Continental Shelf off Alaska's northern coast contain an estimated 36 billion barrels of oil, which could refill the three-quarters empty trans-Alaska oil pipeline and sustain Alaska's economy for decades. The offshore areas permanently closed by the latest action could contain billions of barrels of oil. Meanwhile, the area remaining open for now are estimated to contains 15.4 billion barrels.

The Draft Proposed Program, which was released in January, is to cover the years 2017 to 2022. It includes three potential lease sales in Alaska – one each in the Chukchi Sea, the Beaufort Sea, and Cook Inlet. The sales would occur in the late years of the five-year plan.

According to the Interior Department, four of the five areas off-limits in the draft plan were also unavailable in the previous 2012-2017 plan. The fifth area is around Hanna Shoal in the Chukchi Sea, about 100 miles off the northwest Alaska coast.

Shell's leases, which were acquired in Lease Sale 193 in 2008, are just outside the Hanna Shoal exclusion area. Shell spent more than $2 billion to acquire the leases and has spent an additional $4 billion preparing to drill.

Shell announced last month that it intends to explore for oil on its Chukchi leases this summer if it receives approval from the federal government. In August, Shell submitted a new exploration plan to the Bureau of Ocean Energy Management (BOEM) and since then the company has been meeting with the agency on the plan.

BOEM recently completed a court-ordered supplemental environmental impact statement on the 2008 lease sale. The agency is expected to reach a key decision on the document by April. Shell also needs final permits to drill this summer. If it is granted a green light, the company expects to spend $1 billion on its 2015 drilling program.

Other exclusion areas include a coastal buffer in the Chukchi Sea, the Barrow Canyon in the northeast Chukchi Sea, and subsistence hunting areas around Barrow and Kaktovik, which were omitted from previous federal offshore lease sales under a "deferred" status. However, under the new plan, development in these areas would be banned forever.

Although the 2017-2022 plan includes three Alaska offshore lease sales, there is no guarantee they will ever be held. The proposed lease sales in the new five-year plan will not be held until after President Obama leaves office.

Editor's Note: See Industry Digest on page 11 for related story on new Arctic regulations.

Despite low oil prices, stay the course on oil and LNG

Speaking at the Alaska Support Industry Alliance Meet Alaska Conference, John Minge, President of BP America, said that despite oil price volatility, it is important to stay the course.

"Sure, there are going to be impacts and that's the reality of a significant drop but we need to keep our nerve and stay strategic," Minge said.

John Minge
(Photo by Dave Harbour)

Minge noted that the most recent BP Energy Outlook report projected a 41 percent rise in global energy consumption over the next two decades. Set against that background, he said oil tax reform in Alaska has made the state much more competitive for industry investment.

The BP chief said the current fiscal problem in Alaska stems from low oil prices. He said high oil prices in recent years masked an accelerated decline in North Slope production as investments flowed to other jurisdictions during the 2010-2013 boom. Since Alaska passed oil tax reform two years ago, Minge said his company and the industry have made significant progress in stemming the production decline.

Minge said significant progress has also occurred on the mega-Alaska LNG project. "Rest assured, the LNG project is much more than a dream," Minge said. "And at the same time there's work to do in order to make it a reality."

Minge and Steve Butt, who also spoke at Meet Alaska, said that in 2015, the Department of Natural Resources must make a best-interest finding for the state to receive its gas royalties and its gas production tax in-kind, rather than as cash payments.

Gas in-kind is a pillar of the state-industry partnership in the gas project. Butt, Senior Project Manager of the Alaska LNG Project, noted the importance of stable fiscal terms for the project, which will be among other project enabling agreements the state and its industry partners will need to reach this year. Purchasers of LNG require stable financial terms, including taxes, before signing long-term contracts.

Both speakers urged the state to stay with the roadmap outlined in SB 138, which passed the Legislature last year. The structure laid out in the bill achieved alignment between BP, ConocoPhillips, ExxonMobil, TransCanada, and the state.

"Thanks to the Legislature's work on SB 138, we now have a roadmap to for progress," Minge said. "Governor Walker has repeatedly said that he wants to keep the project on track, and I am going to interpret that as support for SB 138 and the process it laid out." Butt added, "Big projects succeed when all the participants are aligned."

There is a lot of regulatory work moving forward on the project and this will be a pivotal year on the path to its Front-End Engineering and Design phase. A decision is expected in 2016 on moving forward with the project, which could cost $65 billion.

Sealaska lands bill passes

Sealaska is a leader in forest stewardship.

Just before Christmas, Senator Lisa Murkowski secured final Senate passage of legislation supporting Southeast Alaska's struggling timber industry and completing the federal land conveyance owed to Sealaska Corporation.

"It has taken seven years, but I'm proud to say that we finally completed the land conveyance for Southeast Alaska's nearly 20,000 Native shareholders, and at the same time ensured that the region's remaining timber mills have timber," Murkowski said.

The measure provides Sealaska with 70,075 acres to finalize transfer of land owed to its Native shareholders under the 1971 Alaska Native Claims Settlement Act (ANCSA).

"Words cannot describe how pleased we are that this lands bill has passed through Congress," said Sealaska President and CEO Anthony Mallott. "This is a monumental step to achieve our strategic plan of growth and profitability while maintaining important cultural priorities. I want to thank all the stakeholders who collaborated and partnered with Sealaska to make this happen."

"Sealaska is responsible for providing meaningful economic and social benefits to shareholders," said Rosita Worl, who chairs the Sealaska Lands Committee. "The board advocated for this legislation to support economic and cultural sustainability as well as economic diversity beyond timber development and this legislation will help us achieve these objectives."

Sealaska will receive 68,400 acres for timber development, 1,099 acres for renewable energy resources and recreational tourism projects, and 490 acres of Native cemetery and historic sites.

Sealaska's forested acreage is key to the survival of the local timber industry and the U.S. Forest Service's efforts to successfully transition toward young-growth and away from old-growth logging in the Tongass. Sealaska currently produces about 40 percent of the Tongass' timber and without the infrastructure the corporation funds, the rest of the industry might not be able to survive.

The measure also places 152,067 acres of old-growth timber in new conservation areas to protect salmon and wildlife habitat.

Sealaska's current land base of 290,000 acres, together with the acreage in the new legislation, represents less than two percent of the Tongass National Forest or a fraction of the traditional homelands of Southeast Alaska Natives. Passage of the bill will also enable Sealaska to better contribute to the economy and help maintain a sustainable timber industry. Under ANCSA revenue sharing provisions, commonly known as 7(i), Sealaska will share its natural resource revenue with all Alaska Natives.

"Some 43 years after passage of ANCSA, the federal government will finally finish paying the debt we owe Natives for the settlement of their aboriginal land claims," Murkowski said. She emphasized that passage of the bill was vital because an integrated timber industry is crucial for the economics of a timber industry, and for other industries that Southeast Alaska depends upon. "This bill also will allow Sealaska to transition from timber to promoting renewable energy development and tourism – all positives for the region," Murkowski said.

Women in Resources gather for reception, lunch with 1st Ladies

RDC's 11th Annual Women in Resources reception in Juneau offered women board members the opportunity to meet with over half of the women legislators serving in the 29th Legislature, as well as numerous policy makers.

The event, hosted by RDC's women board members, offers a unique, private setting for attendees to discuss important issues.

This year U.S. Senator Lisa Murkowski attended, as did Alaska's First Ladies, Donna Walker and Toni Mallott.

In addition to the annual reception, RDC board members held a special luncheon honoring Mrs. Walker and Mrs. Mallott.

The events were sponsored by: Alaska Airlines, Alaska Oil and Gas Association, Alyeska Pipeline Service Company, Caelus Energy Alaska, LLC, ConocoPhillips Alaska, Inc., ExxonMobil, Jade North LLC, Kinross – Fort Knox, Lynden, Millennium Alaskan Hotel, Sumitomo Metal Mining Pogo LLC, and Usibelli Coal Mine.

In far left photo, Lori Nelson* (Hilcorp Alaska LLC), former DEC Deputy Commissioner Lynn Kent, Lisa Parker* (Apache Corp.), U.S. Senator Lisa Murkowski, Patty Bielawski* (Jade North LLC), and Jeanine St. John* (Lynden) visit at the Women in Resources reception. In the center photo, Jan Trigg* (Coeur Alaska - Kensington Gold Mine), Kati Capozzi (RDC), Stephanie Madsen* (At-Sea Processors Association), Karen Matthias* (Consultant), Wendy Lindskoog* (Alaska Railroad Corp.), Kara Moriarty* (Alaska Oil and Gas Association), Lorali Simon* (Usibelli Coal Mine), Toni Mallott, Tessa Linderman and son Walker, Donna Walker, Patty Bielawski*, Jaeleen Araujo* (Sealaska Corporation), Jeanine St. John*, Lisa Parker*, and Marleanna Hall (RDC) gather for a special luncheon with Alaska's First Ladies in Juneau. Pictured in the right photo at the Women in Resources reception are Sierra Seiver (Westward Fishing Co.), Elizabeth Reed (Westward Fishing Co.), Kara Moriarty*, Kate Williams (Office of Senator Murkowski), Portia Babcock (ConocoPhillips Alaska, Inc.), and Lorali Simon*. *Denotes RDC board member.

RDC Board meets with Governor, legislators at Juneau fly-in

In January, over 40 board members representing all Alaska resource industries participated in RDC's 2015 Juneau fly-in to focus on legislative priorities with Governor Walker, legislators and administration officials. Over the course of two days, RDC met with approximately two dozen legislators and administration officials. RDC also hosted a dinner for freshmen legislators. The fly-in and dinner were sponsored by Alaska Airlines, Alaska Oil and Gas Association, Caelus Energy Alaska LLC, ConocoPhillips Alaska, Inc., ExxonMobil, Hecla Greens Creek Mining Company, Holland America Line, Lynden, Michael Baker, Jr., Inc., Millennium Alaskan Hotel, Sealaska Corporation, and Usibelli Coal Mine, Inc.

(Photos by Judy Patrick)



At left, RDC President Ralph Samuels, Holland America Line, and Executive Director Rick Rogers discuss legislative priorities with Senate President Kevin Meyer. In center photo, RDC board members meet with Governor Bill Walker and Lt. Governor Byron Mallott in the governor's board room. At right, Senator Charlie Huggins meets with RDC, explaining that while Alaska cannot control the price of oil, it can take deliberate action to encourage more oil production.



Ralph Samuels and Rick Rogers share a laugh with House Speaker Mike Chenault. At Center, Ralph Samuels discusses legislative priorities with Senator Cathy Giessel. At right, Representative Sam Kito III meets with RDC.



At left, part of the RDC delegation gathers on the steps of the State Capitol. At center, RDC Past President Phil Cochrane, BP, and board member Anna Atchison, Kinross – Fort Knox, enjoy a humorous moment during a brief break in a rigorous two-day agenda. At right, Representative Bob Herron discusses Arctic policy issues with RDC President Ralph Samuels and the board. Special thanks to Sealaska Corporation for making its Juneau board room available for the meetings.

Guest Opinion – Aaron Schutt

Wood bison should be limited to Innoko area

The December 2014 Resource Review included a piece entitled "Wood bison head home again – for first time in 100 years," by guest author Lana Johnson, Vice Chair, Alaska Wildlife Conservation Center (AWCC) Board. RDC has noted that the views expressed were those of the author, and the article was not intended to represent the views of RDC or its members.

In its March 2013 comments to the U.S. Fish and Wildlife Service (USFWS) on the proposed reintroduction of wood bison in Alaska, RDC said that while it generally supports the goal of recovering populations of wood bison, it remains concerned that reintroduction could negatively impact economic and recreational activities in the state.

The newsletter article takes the view that, as a result of the special rule issued by the USFWS, the reintroduction of wood bison "will not impede oil and gas development, mining, recreation, hunting, trapping and other land uses." As RDC stated in its comments, however, "neither the federal government nor the State of Alaska can guarantee that resource development will not be impacted in the future."

Indeed, it was for this reason that RDC asserted that wood bison should only be reintroduced into areas without significant, developable natural resources, and that any reintroduction at this time should be limited to the lower Innoko/Yukon River location, with specific protections for landowners.

As RDC explained, there is no guarantee that interested parties, in the future, will not decide to petition the USFWS to change the status of the species, potentially triggering the Endangered Species Act's take prohibitions, designation of critical habitat, and Section 7 consultation requirements. Even with the special rule, there are no assurances that, particularly if circumstances change in the future, the experimental population or associated regulations will not be revised to provide greater protection to the species. And there is no means to eliminate the risk of third party litigation.

" Even with the special rule, there are no assurances that, particularly if circumstances change in the future, the experimental population or associated regulations will not be revised to provide greater protection to the species. And there is no means to eliminate the risk of third party litigation."

It is well-established that the presence of a threatened or endangered species, even if designated as an experimental population, can have a chilling effect on natural resource development projects.

RDC and Doyon recognize AWCC for its committed efforts to prepare the wood bison for reintroduction in Alaska. However, despite the assurances contained in the special rule, there continue to be risks and a potential for adverse impacts on resource development activities and other land uses associated with the reintroduction of the wood bison in Alaska.

Aaron Schutt is President and CEO of Doyon, Limited.

RDC comments on Donlin pipeline proposal

By Marleanna Hall

In recent comments to the State of Alaska Pipeline Coordinator's Office, RDC supported approval of the Donlin Gold, LLC (Donlin) gas pipeline right-of-way lease request.

The right-of-way lease application is for a natural gas pipeline from Cook Inlet to the proposed mine north of Crooked Creek. It is for a 14-inch diameter, 315-mile line beginning at the Beluga gas field 30 miles west of Anchorage and ending at the proposed Donlin mine site.

RDC wrote, "The gas pipeline will provide a stable source of energy for the Donlin project, and has the potential to offer the same to local communities if they choose to tie into the gas pipeline at a later date."

The pipeline will bring natural gas closer to rural Alaska, and potentially offer lower cost energy options to the region and job opportunities leading to reduced out-migration.

RDC further highlighted benefits of a gas pipeline to Southwest Alaska, such as jobs, and the opportunities that could arise from the construction of gas pipeline infrastructure along the proposed corridor.

Donlin proposed the gas pipeline as an alternative after residents along the Kuskokwim expressed concerns about barge traffic delivering diesel to the project. The pipeline will reduce expected barge traffic on the river.

RDC noted the footprint of the proposed pipeline is narrow as to reduce environmental impact. Permanent infrastructure of the pipeline will be minimal, and winter construction will reduce impacts to other uses, including sport and subsistence hunting.

Additionally, Donlin has committed to burying much of the pipeline to reduce visual impact and environmental footprint, as well as reclaiming temporary infrastructure, such as roads and landing strips.

The proposed pipeline project includes designs to mitigate potential seismic disturbances at the Denali Fault crossing, and manual check valves about every 20 miles to protect against leaks.

RDC highlighted Donlin's stakeholder involvement efforts, including keeping The Iditarod Trail Committee, Iditarod Sled Dog Race, the Iron Dog Race, and other users informed of the proposed project and pipeline. The route has been optimized to reduce overlap with the historic Iditarod Trail, including rerouting through the Jones River valley – which ultimately will reduce 50 miles of overlap with the trail. Full comments can be found online akdrc.org

From the President – Ralph Samuels

Alaska faces tough choices

"Historically, the state has gone back and forth with respect to treating private sector investors as partners or adversaries. Now more than ever, we need to treat investors of all kinds as welcome partners."

- Possibly losing a large number of military personnel and dependents from Fairbanks and the Anchorage area.
- Half of the National Petroleum Reserve - Alaska deemed off limits for oil exploration.
- Virtually all of the Arctic National Wildlife Refuge managed as Wilderness.
- Oil at $50 per barrel.
- A budget based on $120 per barrel oil.
- A gas pipeline ten years away, if we are lucky.

It appears that there has been a steady stream of bad news for Alaska in the past six months. What should we as a resource organization do to ensure that our economy in Alaska thrives during these most difficult times? What type of policies should we encourage those that see themselves as leaders in our political arena that will encourage a strong economy?

There are several messages we can send in both our actions and our words to our employees, our neighbors and our leaders. First and foremost: Don't hurt all aspects of the private sector in order to sustain the current role of government. Leaders at all levels of all governments, local and state, must look at the economy as a whole as they make difficult decisions on cuts and taxes. They must avoid the trap of simply taxing the business community to meet short-term goals of getting enough cash to pay the bills for a short period of time. The marketplace in all industries in Alaska will respond accordingly, and those taxed industries will simply shrink, and the overall problem that the government is facing will still not be addressed, but now will have fewer private sector jobs and less private sector investment in Alaska.

We will have to be smart as a state in order to weather the storm we have encountered. While it will require that tough choices must be made, as Alaskans we have made tough choices before.

We created the Permanent Fund in order to turn a non-renewable resource into a sustainable fund. After the crash in the 1980s, we created the Constitutional Budget Reserve (CBR) so that we did not fall victim to the short-term vagaries of the oil market. We have steadily tried to add value added processes to industry. Some of these have worked better than others, but the eye of the people of Alaska is always on the prize of trying to get more out of our natural resources.

Historically, the state has gone back and forth with respect to treating private sector investors as partners or adversaries. Now more than ever, we need to treat investors of all kinds as welcome partners. As discussions come forth on the subject of tax policy towards the private sector, we must keep some fundamental rules in mind. If we tax the fishing industry, we will get fewer investments in fishing boats, processing plants, and the associated effects of that industry. If we tax tourism, we will get fewer tourists, and the associated downside of the fewer dollars they spend with local businesses and government tax revenues. Higher mining taxes leads to fewer mines.

While some extreme environmental groups may see a declining private sector in Alaska as a good thing, an overwhelming percentage of the public will not. Donations to non-profits will decline if taxes go up, and the services they provide to the community will have to then be borne by a governmental entity. This is not a good cycle to be caught up in.

RDC and our members certainly want to be part of the discussion, but we do not want to be the only ones at the table.

Arctic Executive Order chills Murkowski

While calling President Obama's recent Executive Order on the Arctic a good forward step in strengthening the coordination of federal agencies on Arctic policy, Senator Lisa Murkowski said it is unbalanced to what the nation's Arctic priorities should be.

Entitled, "Enhancing Coordination of National Efforts in the Arctic," the Executive Order seeks direct input from Alaska's Arctic stakeholders.

"Once again, the President remains focused on climate change," Murkowski said. "I agree climate change is an issue facing our nation and my state, but for President Obama and many of his ideological allies, the plan for the Arctic boils down to two words: hands off."

Murkowski said, "the memo fails to acknowledge the needs and opportunities of the indigenous people of the Arctic, who have subsisted in the region for centuries – and that we have the opportunity to improve the lives of the people that live there, while respecting the time-honored traditions of our Inuit communities." Murkowski said science-based decision-making is essential, but warned that "we can't study ourselves into inaction."

The Senator said investment and vision are needed in infrastructure, ice breakers, and a predictable federal oil and gas permitting process to craft an Arctic economy.

"I fear Alaskan voices will not be adequately considered in Washington," Murkowski said. "We are dealing with a past and present where D.C.-based groups push to lock up our lands and oceans in parks and sanctuaries, and we have had enough."

Industry digest

OCS Arctic-specific regulations released

The Bureau of Safety and Environmental Enforcement (BSEE) and the Bureau of Ocean Energy Management (BOEM) have released proposed Arctic-specific regulations for future exploratory drilling activities on the Alaska Outer Continental Shelf (OCS).

The proposed regulations focus solely on offshore exploration drilling operations within the Beaufort Sea and Chukchi Sea Planning Areas. Using a combination of performance-based and prescriptive standards, the proposed regulations codify and further develop current Arctic-specific operational standards that cover all phases of offshore exploration in the Arctic, including mobilization, drilling, maritime transport and emergency response, and conduct safe drilling operations while in theater.

The proposed regulations codify requirements that all Arctic offshore operators and their contractors be appropriately prepared for Arctic conditions and that operators develop an integrated operations plan that details all phases of the exploration program for purposes of advanced planning and risk assessment.

The proposed regulations as well as a draft Environmental Assessment will be open for public comment. The public may submit comments on the proposed Arctic regulations during the 60-day comment period that begins when the proposed rule is published in the Federal Register.

RDC is reviewing the draft regulations to see what impact they could have on the economic development of Alaska's vast Arctic resources. An action alert encouraging public comment will be released.

"Given the opposition this administration has shown so far to responsible resource development, I'm reserving judgment until it's demonstrated that these regulations will not unnecessarily block investment," said Senator Lisa Murkowski.

Alaska's Beaufort and Chukchi seas contain an estimated 23.6 billion barrels of oil and 104.4 trillion cubic feet of natural gas. Dozens of wells have been safely drilled in these areas since the 1970s. Interior estimates its new proposed regulations will add up to $1.4 billion over 10 years to the cost of development.

RDC comments on Cook Inlet ITAs

RDC submitted comments to the National Marine Fisheries Service on a draft environmental impact statement pertaining to the issuance of Incidental Take Authorizations (ITA) in Cook Inlet.

ITAs are issued by the federal government to public and private sector projects and activities, authorizing temporary disturbances to protected marine species, such as the beluga whale, which is listed under the Endangered Species Act.

RDC emphasized the importance and requirement of NMFS to review the social and economic values of Cook Inlet during the EIS process.

"Just as there can be cumulative impacts on protected species, there are also cumulative social and economic impacts to Alaskans from delays, conditions and restrictions on Cook Inlet activities," said RDC Executive Director Rick Rogers. "The food and energy security to a majority of Alaskans is dependent on the uninterrupted commerce in Cook Inlet. The EIS should fully acknowledge and evaluate indirect and cumulative impacts of any foreseen ITA delays or restrictions in Cook Inlet," Rogers added.

Oil and gas development, commercial, sport, and subsistence fishing, mining, tourism, air freight, commercial aviation and national defense all occur in the Cook Inlet region. Thousands of jobs can be directly attributed to shipping and natural resource development in the region, and the Port of Anchorage handles 90 percent of the merchandise goods for 85 percent of Alaska's population. The port is undergoing critical improvements to prevent severe economic disruption in the event of a catastrophic earthquake.

In addition, the nearby Port MacKenzie will soon have rail access and a study is underway on a project to ship LNG from the port by rail to Fairbanks to relieve soaring energy costs. Moreover, Cook Inlet is likely to host the terminus for the $65 billion Alaska LNG export project.

"Given the dependence we all have on the flow of goods and energy from Cook Inlet, NMFS should fully evaluate the risks to human health and safety that the delay or curtailment of ITA issuance could have on the well being of Alaskans," Rogers said.

RDC opposes critical habitat proposal

At a public hearing in early February, RDC testified against a federal proposal to designate massive areas as critical habitat for the Arctic ringed seal. Projects Coordinator Kati Capozzi explained RDC is on record of opposing the original 'threatened' listing of the ringed seals due to their known abundant population.

"The ringed seal population continues to be strong, healthy, and faces no clear and present danger of suffering significant loss," said Capozzi. "The 100-year climate modeling practice based on what could happen to a species with regard to climate change has been proven as flawed and even recently resulted in the vacated listing of the bearded seal. This same flawed science was applied to the ringed seal and has resulted in an unprecedented vast proposed critical habitat designation."

Critical habitat is defined by the U.S. Fish and Wildlife service as a specific geographic area(s) that contains features essential for the conservation of a threatened or endangered species and that may require special management and protection.

"It is beyond unreasonable to designate what would be the U.S.'s largest critical habitat designation for a species that is experiencing a healthy and abundant population," Capozzi testified. "Further, ringed seals and their habitats are well managed and protected by international agreements, conservation programs, and laws, including the Marine Mammal Protection Act. These and other measures are working, as is proven by their population."

RDC is working on its formal written comments on the proposed critical habitat designation and they will be available at akrdc.org following the March 30th deadline.

Yellow-billed loon remains a candidate species

The U.S. Fish and Wildlife Service (USFWS) recently announced a delay in the Endangered Species Act (ESA) listing of the yellow-billed loon in Alaska. USFWS determined the species protection is "warranted but precluded," leaving the loon as a candidate species.

RDC opposes the listing, noting protections for the loon are in place under a 2006 Conservation Agreement, as well as the Migratory Bird Treaty Act. RDC continues to monitor the potential unnecessary listing of the yellow-billed loon.

RESOURCE DEVELOPMENT COUNCIL

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