

RESOURCE REVIEW

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New discoveries breathe life into Alaska's Future



Caelus Energy Alaska announced a significant oil discovery on its Smith Bay state leases on the North Slope. Caelus estimates at least six billion barrels of oil in place. The new find could deliver significant oil production, jobs and state revenue.

It appears light is shining through the end of a long dark tunnel with recent announcements from Caelus Energy Alaska LLC and Armstrong Oil and Gas Company of major discoveries that could ultimately add hundreds of thousands of barrels of oil daily into the Trans-Alaska Pipeline System (TAPS).

In early October, Caelus announced a major discovery at its Smith Bay leases on the North Slope, approximately 50 miles southeast of Ukpiagvik (formerly Barrow).

"This discovery could be really exciting for the state of Alaska," said Jim Musselman, the Chief Executive Officer of Caelus. "It has the size and scale to play a meaningful role in sustaining the Alaskan oil business over the next three or four decades."

Based on two wells drilled this year as well as seismic testing, Caelus estimates the oil in place under the current leasehold to be six billion barrels, with up to 10 billion barrels when adjoining acreage is included. The company expects recovery factors

in the range of 30 to 40 percent, with an estimate of 200,000 barrels per day going into TAPS. For decades, TAPS has been Alaska's economic lifeline generating billions of dollars in revenue to the State, but is currently running at three-quarters empty.

Caelus is planning an appraisal program, including an appraisal well and new 3-D seismic for the winter of 2017-2018. That program was planned for this winter, but was pushed back, given uncertainty in the State's oil tax system and low oil prices.

The discovery is in a remote location and could cost up to \$10 billion to bring on line. A processing center would need to be built at Smith Bay and a 125-mile pipeline would extend from the field to existing infrastructure. Smith Bay oil could be flowing through TAPS in five years.

Earlier this year, Armstrong announced a major discovery in the Pikka Unit, also known as the Nanushuk field, located 150 miles southeast of Ukpiagvik, between

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COALITION WORKS TO KEEP ALASKA OCS SALES IN PLAN

A coalition of groups supportive of responsible resource development in and off the coast of Alaska launched a new broadcast, print and digital campaign this fall calling on the Obama administration to keep intact the Arctic leasing areas currently contained in the Interior Department's draft proposed plan for 2017-2022.

The draft program, revealed in March, allows for the possibility of lease sales to be held for federally controlled tracts in the Beaufort (2020) and Chukchi (2022) seas. But opposition groups continue to wage an aggressive campaign to have those areas removed from the final schedule.

The Arctic Coalition, a group of 20 organizations (including RDC) representing Alaska Native groups, labor unions, higher education programs, industry and others, launched this new campaign in direct response to the opponents efforts, using the platform to articulate the essential role that oil and gas development plays in the Arctic and the importance of ensuring that it is included in the final leasing program.

The campaign, focused on the Washington D.C. media market, began September 12.

Jeff Eshelman, Senior Vice President for Operations and Public Affairs at the Independent Petroleum Association of America and a member of the Coalition, said despite low commodity prices, industry is still very interested in the Arctic and retains over 40 offshore leases

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From left to right are Kati Capozzi, Carl Portman, and Marleanna Hall.

RESOURCE DEVELOPMENT COUNCIL

is an Alaskan, non-profit, membership-funded organization comprised of individuals and companies from Alaska's oil and gas, mining, timber, tourism, and fisheries industries. RDC's purpose is to link these diverse industries together to encourage a strong, diversified private sector and grow Alaska through responsible resource development.

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A STEP IN THE RIGHT DIRECTION, NOW KEEP THE MOMENTUM

A Message from the Executive Director

This year, the United States Congress made progress in supporting American projects by way of the "Energy Policy Modernization Act of 2016." The bill, sponsored by U.S. Senator Lisa Murkowski, is now in conference between the House and Senate.

Specifically, a provision in the legislation will streamline the permitting process for mining, a process that is overly burdensome and redundant. It will help allow the U.S. to remain a leader in mined materials production at a time when demand continues to rise.

Currently, it can take up to 10 years to obtain a mining permit. This bill will continue to require accountability without compromising environmental protections and safeguards. Passage will encourage access to minerals, and promote policies that support mining in the U.S. from a globally competitive perspective, and provide more certainty and predictability to

If Alaska were its own nation, it would rank in the top ten for each of the following resources: coal, copper, lead, gold, zinc, and silver.

companies investing in projects that will result in responsible development of our domestic and abundant natural resources.

According to the National Mining Association, the U.S. contains an estimated \$6.2 trillion worth of mineral resources. Alaska is a small, but important part of that. In fact, if Alaska were its own nation, it would rank in the top ten for each of the following resources: coal, copper, lead, gold, zinc, and silver.

Alaska's minerals, much like the seafood it exports, are highly valuable and could be marketable around the world, or consumed in the U.S. And with an estimated 2,800 occurrences of strategic minerals across the state, Alaska offers immense opportunity and potential for new mines.

Mining and producing materials right here in Alaska is a way to prevent the U.S. consumption of conflict materials imported from other countries. When mined materials come from Alaska, domestic manufacturers are not forced to seek materials from overseas.

These mined materials, which will be used to advance responsible resource development across Alaska and to build renewable energy products, are going to come from somewhere, why not here?

Historically, mining has been a cornerstone of Alaska's economy, and is an economic engine in some municipalities and boroughs.

Alaska has a proven record of high standards in responsibly developing natural resources, protecting the environment, promoting jobs and growing Alaska's economy.

The longer we wait to remove overly burdensome and unnecessary hurdles, the more damage is done to an industry that supports family wage jobs in urban and rural Alaska.

RDC Board Outreach focus on Southeast Alaska



Thank You Sponsors



The 2016 RDC Board Outreach Trip this year featured a Southeast Alaska tour via a Holland America Line ship. The four-day event in late August and into early September included visits to Skagway, Glacier Bay, Ketchikan, and Vancouver, B.C. Board members toured the Ore Terminal in Skagway, a fish hatchery in Ketchikan, and held briefings aboard the ship with the Alaska Forest Association and the ship's Environmental Officer. In Vancouver, board members attended a mining investment panel discussion with companies that are either doing business in Alaska or have an interest in doing so. Above, board members, staff and guests at Glacier Bay National Park.

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ConocoPhillips' Alpine and Kuparuk field. The Armstrong prospect could produce at least 120,000 barrels of oil daily.

The U.S. Army Corps of Engineers is currently conducting an environmental impact statement on Nanushuk.

The field is on both State and Native corporation land. Future production on Native corporation land would benefit all Alaska Native shareholders through the 7(i) and 7(j) revenue-sharing provisions of the Alaska Native Claims Settlement Act.

Meanwhile, Armstrong is planning to drill a wildcat well this winter on state land south of Pikka.

Both Caelus and Armstrong said a stable tax regime will be critical to attract the major investment necessary to develop the fields. Both companies said oil tax credits were critical to their discoveries. The legislature is all but certain to debate oil tax policy again in the next legislative session.

Governor Bill Walker called the most recent Caelus discovery "good news" for Alaska.

Smith Bay and Nanushuk are long-term prospects, but they offer Alaska's economy a huge shot in the arm – billions of dollars that will be spent to pursue development and hundreds of jobs will be required to develop the large-scale projects.

ARCTIC LEASE SALES continued from page 1

in the region while investing millions of dollars into research on oil spill response and preparedness and other areas. "This campaign is further proof that industry is fully committed to responsible offshore development in the region."

Kara Moriarty, President and CEO of the Alaska Oil and Gas Association, said the breadth of Alaskan organizations that have come together, 16 in total, demonstrates the importance of this issue to the state. "Without the lease sale option, there is simply no prospect of future investment in the infrastructure which we need. I can't stress this enough; taking lease sales off the table now sends a clear message that the federal government is hanging a 'closed for business' sign on our state, at a time when we are already facing huge budgetary challenges," Moriarty said.

Rex Rock Sr., President and CEO of Arctic Slope Regional Corporation, said "Arctic OCS (Outer Continental Shelf) exploration and development would bring additional jobs, higher wages and increased tax revenues to both the North Slope region and the State of Alaska. Moreover, continued exploration and development of the Arctic OCS would serve the national interest by contributing to the United States' long-term energy security."

Eshelman pointed out that while the oil

industry's impact on the economy of Alaska is well known, what is less understood is the crucial role it plays in supporting homeland security in the Arctic. "As the comments by Secretary Cohen, General Ralston and others make clear, private sector enterprise, specifically oil and gas development, is a critical pre-requisite to our national defense, Eshelman said. "We really shouldn't be needlessly throwing it away, especially at a time of increasing international tension in the region."

In addition to the comments submitted to the Department of the Interior by former Defense Secretary William Cohen and others, a second group of foreign policy experts, led by a former National Security Advisor to President Barack Obama, General James L. Jones, recently issued a statement arguing that the United States "has not built the presence required to maintain regional security and stability" and "is at risk of being eclipsed by other Arctic states for access and influence."

The State of Alaska is also working to ensure Alaska is included in the new five-year lease sale program. Governor Bill Walker formally nominated the proposed Alaska lease sales for inclusion in the program and said once the sales are scheduled, the state will nominate specific tracts.

Court supports climate-based listing of bearded seal

The 9th Circuit Court of Appeals reinstated a decision protecting bearded seals in Alaska under the Endangered Species Act (ESA), reversing a lower-court ruling and accepting arguments based on long-range climate change models that suggest a threat to the species toward the end of the century.

Judge Richard Paez said the decision was based on whether the National Marine Fisheries Service can list a species that is not currently endangered but may suffer a population decline in the future.

The State of Alaska, the Alaska Oil and Gas Association (AOGA) and the American Petroleum Institute, as well as Arctic Slope Regional Corporation and NANA Regional Corporation, intervened in the case.

“We’re disappointed with the result and obviously disagree with the reasoning of this Ninth Circuit panel,” said AOGA President and CEO Kara Moriarty. “The Alaska district court judge carefully considered this case and ruled in favor of a diverse group of Alaska Native, State, and industry interests representing the people who live, work, and govern on the North



Slope of Alaska,” she added.

AOGA said the law and the record in this case support reaffirming the district court judge’s opinion. “The approach taken by this Ninth Circuit panel fails to require federal agencies to make any scientific demonstration that a species qualifies as ‘threatened’ or ‘endangered’ under the ESA,” said Moriarty. “This is not what Congress intended when it enacted the ESA. The panel’s rationale for listing the bearded seal was based on conjecture rather than science.”

The decision is expected to trigger additional protections for the seals, including the designation of critical habitat. The seals range includes the

Bering, Chukchi, and Beaufort seas. The protections will affect future offshore oil and gas projects, leading to delays, extra layers of regulations, additional mitigation, and higher costs. Restrictions on marine traffic in the region could also occur.

Industry is highly concerned about an Executive Order from President Obama directing federal agencies to strengthen policies with new compensatory mitigation guidelines under the ESA. The draft policy suggests that USFWS would require a “net gain” or “no net loss” on project applicants, resulting in higher costs and delays.

The State noted that if the Appeals Court decision stands, federal agencies could use speculative climate models stretching out 100 years into the future to list species that are currently robust and have healthy populations. Both industry and the State said the decision by the three-judge panel could have major implications for the listing of other species.

The State and industry are considering their options, including reconsideration of the decision by the panel, requesting a review by the full court or an appeal to the U.S. Supreme Court.

RDC URGES FEDS TO WITHDRAW DRAFT ESA POLICY

RDC has urged the U.S. Fish and Wildlife Service (USFWS) to withdraw the Draft Endangered Species Act (ESA) Compensatory Mitigation Policy.

“This unnecessary application of voluntary compensatory mitigation policy will only create additional confusion and uncertainty for project proponents, potentially resulting in delayed operations and increased costs at best,” said Kati Capozzi, RDC’s Communications and Projects Manager. “At worst, this draft policy could prevent projects from moving forward at all. In a state in critical need of infrastructure, this proposal will negatively impact rural and urban development, furthering the difficult circumstances many Alaska communities endure.”

The draft policy raises a number of concerns, most notably the assertion made that the USFWS has authority to require compensatory mitigation resulting in a ‘net gain’ or ‘no net loss’ under the ESA. The ESA and its implementing regulations do not require or recommend the USFWS enforce compensatory mitigation measures. The USFWS must ensure that an action is not likely to jeopardize or cause adverse modification and may prescribe measures to minimize — not “mitigate” or “fully compensate” for the potential impact.

While the USFWS acknowledges that impacts may be voluntarily mitigated under the ESA, the draft policy is structured and written as though it will be used by the USFWS to mandate compensatory mitigation to achieve ‘benefit’ or ‘no net impact’ results, Capozzi noted.

RDC is concerned that while “voluntary mitigation” is implied, a very possible result of the draft policy is that project applicants will be compelled into agreeing to compensatory mitigation that is not legally required under the ESA for fear that approval of their projects will be substantially delayed or effectively denied if compensatory mitigation is not included in their proposal. The draft policy also places a strong priority on compensatory mitigation that occurs in advance of impacts. RDC strongly believes project proponents cannot reasonably be expected to implement compensatory mitigation in advance of incidental take authorizations or development of the proposed project.

RDC’s full comments on the draft policy are available at akrdc.org.



BLM PLAN MAPS FUTURE OF EASTERN INTERIOR

Guest Opinion: Deantha Crockett

While many Alaskans spent this summer working a very late ending Legislative Session(s), several members of the Alaska Miners Association (AMA) devoted the month of August developing comments on the Final Environmental Impact Statement (EIS) for the Bureau of Land Management's Eastern Interior Resource Management Plan (EIRMP). BLM began scoping for the EIRMP in 2008 and in 2013 introduced a draft plan to propose management of the enormous area, spanning from the Yukon River to the north, Tok to the south, Fairbanks to the west and the Canadian Border to the east. This area, of course, contains one of the most active mining areas in the state – the Fortymile Mining District.

When the Final EIS for the EIRMP was released, I contacted the Fortymile Mining District to solicit comments. It seemed to be an idiotic idea because of course, the miners would be busy mining and unable to provide meaningful comments in the short timeline in which the Plan allowed. The final version of the EIRMP was released July 29 and by regulation, allowed a specific 30-day comment period in the form of a Protest to the Plan. We were given only 30 days to review over 1,700 pages.

Thankfully, Alaska's trade associations for the mining industry has amazing volunteer expertise and collectively we were able to submit technical comments on the inconsistencies and inadequacies of the Plan by the deadline. To its credit, the BLM did offer the ability to submit supplemental comments for another 30 days following the deadline, in the Governor's Consistency Review Period.

Aside from the EIRMP, it is important to shed light on communication between the mining industry and BLM. Also this summer, AMA engaged in a series of meetings and field visits with the BLM Resource Advisory Council (RAC). The RAC, consisting of individuals appointed to oversee and advise BLM on its policies,

“There are many areas to disagree with the agency on, both on land plans and mining regulations, but I must give credit where it is due. BLM has committed to restarting a conversation on requirements for placer mining. We've taken them up on it, and thus far the conversation has been productive and encouraging.”

review BLM's regulatory oversight, including that on mining projects. This summer, the RAC has evaluated restoration the BLM has performed in tandem with introducing new requirements on placer miners. The demonstrations have shown many areas in which the agency has unreasonable policies, but many areas in which the agency is willing to be flexible and assist as well.

There are many areas to disagree with the agency on, both on land plans and mining regulations, but I must give credit where it is due. BLM has committed to restarting a conversation on requirements for placer mining. We've taken them up on it, and thus far the conversation has been productive and encouraging. The conversation takes miners – ones that understand mining operations and the correct way to develop, operate, and reclaim. Between AMA and RDC, we've got a lot of those folks, and we will push to showcase that fact to BLM.

I'd like to thank RDC for its comprehensive comments on the EIRMP, and also to Executive Director Marleanna Hall for accompanying AMA members to Chicken for a meeting with BLM at the beginning of the summer. RDC's advocacy for placer miners, and for all of Alaska's mining industry, is greatly appreciated.

Editor's Note: Deantha Crockett is Executive Director of the Alaska Miners Association. RDC's comments are available online.

GAO FINDS SERIOUS GAPS IN FEDERAL MINERAL POLICIES

U.S. Sen. Lisa Murkowski welcomed the release of a report she requested from the Government Accountability Office (GAO) examining the federal government's approach to identifying, assessing, and facilitating domestic mineral supplies. The report outlines a series of significant shortfalls and limitations, which together underscore the urgency and importance of reforming the nation's mineral policies.

“While I'm pleased that GAO's findings and recommendations track the contents of the critical minerals legislation that I introduced and included in my bipartisan energy bill, their analysis also underscores that the time to act is now – before our economy, our competitiveness, and our security are harmed,” Murkowski said.

America's foreign mineral dependence presents a growing, yet generally ignored, danger. According to the U.S. Geological Survey,

the United States imported at least 50 percent of its supply of 47 separate mineral commodities in 2015, including 100 percent of 19 of them. With many mineral imports coming from a small set of countries, led by China, the concentration of foreign supply has also emerged as a cause for concern.

Within its new report, GAO concludes that “the federal government's approach to addressing critical materials supply issues has not been consistent with selected key practices for interagency collaboration, such as ensuring that agencies' roles and responsibilities are clearly defined. In addition, the federal critical materials approach faces other limitations, including data limitations and a focus on only a subset of critical materials, a limited focus on domestic production of critical materials, and limited engagement with industry.”



INDUSTRY DIGEST



Tongass young-growth transition objectors seek inventory

The U.S. Forest Service held lengthy “objection resolution” meetings in Ketchikan and Juneau in mid-October on an amended management plan for the Tongass National Forest. The amended draft plan guides a 16-year transition from old-growth timber to young-growth, among other actions.

The Forest Service released the amendment and a draft Record of Decision in June. The documents drew strong objections from both environmentalists and Alaskans who support multiple use management of the forest. The forest industry strongly opposes the transition, calling it premature and destined to fail. Many in Southeast Alaska fear the transition will destroy what is left of the industry.



The meetings opened in Ketchikan to discuss the impact of the 2001 Roadless Rule on the Tongass transition plan. Other meetings covered the proposed young-growth transition, renewable energy development, timber supply, and new wildlife conservation areas.

Objectors included former Governor Frank Murkowski, the Alaska Miners Association, the Alaska Forest Association, Hyak Mining Company, First Things First Foundation, Alaska Power & Telephone, the Ketchikan Chamber of Commerce, Sealaska Corporation, RDC, the Ketchikan Gateway Borough, and the State of Alaska.

U.S. Senator Lisa Murkowski has introduced legislation supported by RDC that would delay implementation of the transition plan until an adequate inventory of young growth timber is completed and a thorough economic analysis of the transition is conducted.

“To us it doesn’t make sense to adopt a new plan, a new direction for the national forest, and then do the analysis of the feasibility of the plan at a later date,” said Owen Graham, Executive Director of the Alaska Forest Association. “That just doesn’t make sense. The transition’s been predicated on some very faulty assumptions.”

The Forest Service said the meetings were not for negotiations, but to discuss and clarify issues and explore resolution options. RDC’s comments on the transition plan are available at akrdc.org.

U.S. Senate committee hears Alaska bills

The U.S. Senate and Natural Resources Committee held a hearing on over 20 bills, many of which affect Alaska’s resource industries. RDC submitted a letter for the record on bills pertaining to offshore and onshore oil and gas development, TAPS throughput, mining, the establishment of a Tongass State Forest, the Alaska Mental Health Trust Land Exchange, the King Cove Land Exchange, the Alaska Native Claims Improvement Act, and other issues. See comments online at akrdc.org.

ConocoPhillips orders rig to set new extended reach drilling record

ConocoPhillips Alaska has signed a contract with Doyon Drilling Inc. to build a new Extended Reach Drilling (ERD) Rig. The rig will initially target development of Fiord West, a field northwest of the main Alpine pad discovered in 1996. The ERD rig represents the third new-build drilling rig ConocoPhillips has contracted for since SB21 was passed in 2013.

The new ERD rig will increase the area that can be developed from a drill site from approximately 55 square miles to as much as 125 square miles. Use of the ERD rig will decrease the footprint of development, thus minimizing environmental impact.

“The new ERD rig is good news for ConocoPhillips and for the state. Despite the current challenges facing our industry, we are planning for the future and pursuing new development opportunities,” said Joe Marushack, President of ConocoPhillips Alaska. “Adding the ERD rig to our rig fleet on the North Slope is a potential breakthrough event. It could enable increased oil production by reducing the cost of developing economically challenged or previously unreachable resources.”

This highly-specialized rig will be able to drill to 33,000-plus feet, as compared to the approximate 22,000-foot reach of current rigs. The ERD rig can also be used at other North Slope locations. The ERD rig is scheduled to begin drilling in 2020. The company anticipates it will have sufficient work to keep the rig busy for 10-plus years, representing a significant potential future investment.

RDC supports Greater Mooses Tooth 2 project in NPR-A

In a letter to the Bureau of Land Management, RDC expressed its support for the Greater Mooses Tooth (GMT2) project proposed by ConocoPhillips within the National Petroleum Reserve (NPR-A).

The proposed project would be connected by road and pipeline to the approved and existing GMT1 development. The project would include facilities to support up to 48 wells, including a production pad, pipelines, and road to facilitate development of petroleum resources within the Greater Mooses Tooth Unit. A version of the GMT2 project was initially approved in the Record of Decision of the Alpine Satellite Development Plan in 2004 and was included as a reasonably foreseeable development in the 2012 NPR-A Integrated Activity Plan Environmental Impact Statement (EIS) and the 2014 GMT1 Supplemental EIS. The project is similar to the one approved in 2004, but includes several revisions and modifications to reduce impacts to the environment and subsistence resources.

The project would produce oil from federal and Alaska Native corporation land. The project will bring meaningful benefits to local communities, the state, and the nation. Through the 7(i) and 7(j) provisions of the Alaska Native Claims Settlement Act, this project will provide revenues throughout the state through royalties and revenue sharing among Alaska Native shareholders.



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