

Alaska Economic Report

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Oil, mining and defense increases offset other decline

Construction spending to rise 4 percent in 2018

Construction spending will rise 4 percent in Alaska in 2018 to \$6.6 billion, pushed up by a recovery in capital spending by oil and gas companies. However, with oil taken out of the total, all other construction will be down 2 percent, to \$4.1 billion, according to the latest annual construction forecast prepared by the University of Alaska Anchorage's Institute of Social and Economic Research. ISER does the work yearly for the Associated General Contractors of Alaska and the Construction Industry Progress Fund.

Oil spending, on new projects, is expected to rise 15 percent to \$2.55 billion. "After falling by half in the last two years, spending by the petroleum industry will start to recover because of the rise in the price of oil and more support for the industry from the federal and state governments," ISER said. Mining capital outlays are forecast to rise 6 percent, to \$239 million. Expenditures for other basic industries

and for utilities are forecast to rise 10 percent and 4 percent respectively. However, construction spending in health care, commercial building and new residential will drop, according to the ISER data. Public sector spending will drop 1 percent in 2018, with increases in defense-related projects (up 11 percent); highways (up 6 percent) and airports, ports and harbor spending offset by a 20 percent decline in school facility spending, a 16 percent drop in other local and state projects and a 1 percent decline in non-defense federal projects.

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Production from Alpine, Kuparuk oil fields increased in 2017

Despite the wobble in oil prices over the last week there's more good news from the North Slope. Producers there are continuing to expand output with new projects coming on line. The latest we have is that ConocoPhillips expanded production at its Alpine field by 7.2 percent in 2017 over 2016. Production in the larger Kuparuk River field, also ConocoPhillips-operated, was up by 5.9 percent year-over-year. Data was compiled by the state Dept. of Revenue at our request.

Higher production levels continued into January, according to the state data.

The Kuparuk River field increased production from an average of 102,194 barrels per day in 2016 to 108,192 barrels per day in 2017. Alpine increased from 58,701 barrels per day in 2016 to 62,943 barrels per day in 2017. In the large Prudhoe Bay field, which pro-

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Energy:

Goldman Sachs values ML&P

A Goldman Sachs analysis has valued Anchorage's city-owned Municipal Light & Power at between \$707 million and \$1 billion, indicating that the proposed sale of ML&P to Chugach Electric Association for \$1 billion would be in the upper ranges of the calculated value. The analysis had been kept confidential by the Municipality of Anchorage until it was obtained and published by the Anchorage Daily News under the Freedom of Information Act. Chugach officials had not seen the analysis but said it was consistent with their offer to buy ML&P. The sale must be approved by Anchorage voters in the April election.

Goldman Sachs said in the report that ML&P would have to raise its rates periodically to maintain a profit margin and pay debt service. Chugach said it will not raise rates due to the acquisition. Both Chugach and the municipality are being criticized in the Anchorage community over how the ML&P sale was negotiated, which was behind closed doors and without a transparent bid process, and how financial information was kept under wraps. There were others interested in ML&P but their offers are still confidential. Anchorage's assembly officially decided Jan. 23 to put the question on the April ballot.

Infrastructure:

Inventory underway on Inlet pipelines

The Cook Inlet Regional Citizens Advisory is working with state and federal agencies to inventory the Inlet's pipeline network, much of which dates from the 1960s and 1970s, to determine what pipelines carry and the history of leaks. The Nuka Research and Planning Group is working with the CIRCAC. Draft reports are due to the CIRCAC board in May.

A new look at Nome for Arctic port

The U.S. Army Corps of Engineers is taking another look at Nome as a regional Arctic port. The corps had

A new look at Nome port (Cont.)

selected Nome for a major port improvement project but when Shell pulled out of the Chukchi Sea in 2015 the economic justification was lost. However, a 2016 change in federal law allows social factors to be considered including aid in Arctic rescue, community sustainability as well as regional security. Corps officials plan to meet in Nome in late April to begin the study. The corps project would involve an extension of Nome's causeway and dredging to deepen the port.

Climate change:

New report on health effects

The state Division of Public Health has released a statewide assessment of the effects of climate changes, which are felt more in Alaska because of its northern location. One key effect is the threat to subsistence foods for rural Alaskans, where 34 million pounds of wild foods are harvested annually. Climate change has led to poor ice conditions for overland travel; thawing permafrost that affects food storage, and changing bird and animal migrations. Other impacts include damaged infrastructure in coastal areas, more wildfires and, from a strictly health perspective, longer pollen seasons and West Nile Virus and tick infestations.

Municipal:

Juneau wants to expand to Admiralty

The City and Borough of Juneau has filed a request with the state Local Boundary Commission to expand its boundary and annex four areas on Admiralty Island and an area near Tracy Arm that borders the Petersburg Borough. If the boundary commission approves the request it will go to the Legislature for approval. Funter Bay, Glass Peninsula and Pack Creek on Admiralty Island would be annexed under the proposal. There are only recreational cabins now in the areas but officials at Angoon, on the west side of Admiralty, expressed concern at Juneau's boundary getting close to the community.

Backlog of work is rising again

State deferred maintenance now totals \$1.87 billion

Deferred maintenance on public buildings in Alaska, state, university and schools, is on the rise again, with the total increasing \$60 million last year to \$1.87 billion, state officials told a legislative committee in Juneau. About \$1 billion of the total is within the University of Alaska system. UA is budgeting \$50 million a year against the backlog but the state itself is unable to do much with its minimal capital budgets. Gov. Bill Walker's proposed three-year employment tax is targeted at raising \$800 million to be spent on the deferred maintenance backlog over three years, but its passage is problematic in an election year.

State gas corporation to solicit first equity investments later this year

The state's Alaska Gasline Development Corp. will be actively soliciting private equity investment including from Alaskans later this year. This will be a first test of investor confidence in the project. AGDC is developing the long-planned \$43 billion Alaska LNG Project and is working with Chinese companies as possible customers. The initial solicitation for equity will be for \$817 million to be used in Front End Engineering and Design. The FEED would set the stage for a final investment decision in 2019, but that also assumes the Chinese LNG purchase deal comes together. A deadline for a deal with Sinopec, the lead Chinese customer, is the end of this year. AGDC will make a special offer to Alaskan investors prior to taking the solicitation out on a "road-show," we were told.

Production expands in Alpine, Kuparuk fields on Slope (Cont.)

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duces about half of the total North Slope production, field operator BP essentially flattened the field decline for the third year in row. Prudhoe showed a 0.2 percent decline in 2017 over 2016, according to the state data, or 280,909 barrels per day on average compared with 280,313 barrels per day in 2017. Altogether, total North Slope production was 1.4 percent higher in 2017 than 2016. Alyeska Pipeline Service Co. said it moved an average of 527,323 barrels daily in 2017 compared with 517,868 barrels per day on average in 2016.

ConocoPhillips spokeswoman Natalie Lowman told us the highly-successful CD-5 production pad in the Alpine field was a big factor in that field's improved performance. "CD-5 has had better-than-expected production. It is currently at 37,000 barrels per day compared with the original estimate of 16,000 barrels per day," she said. The company added more wells to CD-5 last year after the initial production was better than expected.

Kuparuk River output was aided by a new field project on line, North East West Sak, or NEWS, that was completed two months early and has since enjoyed better-than expected production. Results in both fields are also aided by completion of new-technology "penetra-lateral" wells, where five underground producing legs are drilled with rotary rigs off one vertical well to the surface, and results from coiled-tubing drilling improved by better use of geoscience and reservoir targeting, she said. Producers were generally able to achieve higher operating efficiencies with data analytics and suggestions from company employees.

Business Intelligence

Trend toward multi-family residential housing seen in Anchorage

The bulk of Anchorage's 2017 increase in residential housing came in multi-family and duplex units, according to the latest municipal building report. In total, 460 new residential units were added, up from 341 in 2016, but only six of those were new single-family homes. Total residential building activity was valued at \$428.1 million, down from \$466.9 million in 2016. The 2017 trend toward multi-family units in more urban, higher-density locations will likely continue in Anchorage, real estate analysts say, with several new multi-family projects planned for 2018. New single-family construction remaining at low levels mainly because of land scarcity and costs in the Anchorage bowl area.

NOT OFFICIAL YET, BUT COSTCO SET TO MOVE INTO FAIRBANKS: No official announcement has been made yet but it appears Costco will be moving into Fairbanks and into the building on College Road vacated Sam's Club, which closed stores in Anchorage and Fairbanks. Costco signed a letter of intent to lease the former Sam's building with the owner, Kamin Realty and the lease is reported close to being finalized. The Fairbanks Costco would have bakery, pharmacy, liquor and fresh meat sections besides its general merchandise. Costco told local business leaders that it has looked at Fairbanks for years but always hesitated because of the competition from Sam's as well as Fred Meyer. That equation has changed now, the company said. The Sam's closings were due to corporate restructuring and not the local markets.

ANCHORAGE COMMERCIAL BUILDING VACANCIES RISE, REFLECTING RECESSION: Anchorage office vacancy rates rose in 2017 as the community felt the effects of recession, speakers at the annual Building Owners and Managers Association, or BOMA, said in a briefing to local business leaders. Prime office building space vacancy rose to 14.6 percent, up from 7.9 percent in 2016 and 5.8 percent in 2015. While higher in 2017 the Anchorage Class A vacancies are still close to the national average. Vacancies were lower in office space of less quality but still higher than in 2016, with vacant space of 11.3 percent in that category, up from 7.7 percent in 2016. Lease rates are holding firm for better quality Class A space at about \$3 per square foot per month and about \$2.50 per square foot per month for lower quality space, but landlords are now offering more perks, such as extended-lease terms, to attract and keep tenants. Many of the buildings affected have large blocks of space that were previously occupied by oil-related or engineering and other professional companies.

Retail lease rates in Anchorage took a dip in 2017, from an average of \$2.10 per square foot per month in 2016 to an average \$2.04 per square foot per month in 2017. Overall retail vacancy rates were estimated at 4.59 percent in 2017 with vacancies in malls at 7.16 percent (this would not reflect the recent Sears store and Sams' Club closings). Industrial facility vacancy rates remained generally stable last year at about 2.4 percent, those attending the BOMA briefing were told. Industrial space supply looks to remain static partly because of the recession and because of high building costs, which for metal construction are estimated at between \$175 per square foot to \$200 per square foot. That's up from \$120 per square foot to \$140 per square foot in 2008, speakers at the BOMA briefing said.

ANCHORAGE ASSESSED VALUES DIP: Anchorage home values, in total assessed valuation, dipped slightly last year, municipal assessors said. Single family home values dropped 1.3 percent and condominium values dropped 1 percent. The valuation does not include the value of new construction, the city said. Values in Girdwood, a mainly recreational community south of Anchorage, rose slightly. It's unclear how the new assessment will affect property taxes on individual properties.

ANOTHER CONTRACT FOR EIELSON CONSTRUCTION IS AWARDED: Watterson Construction of Anchorage landed another project at Eielson Air Force Base, building for the two F-35 squadrons to be based at Eielson. Watterson was awarded a \$58 million contract to build a new F-35 hanger. The company is already working on one contract, a \$19.8 million flight simulator, and is working with Fairbanks-based Callahan Construction on a \$7.8 million ammunition storage facility. The Air Force plans to invest \$500 million in new construction at Eielson to prepare for the F-35s, which will arrive in 2020 and 2021.

FAIRBANKS APPROVES TWO NEW LABOR CONTRACTS WITH SMALL PAY RAISES: The Fairbanks North Star Borough has approved two new labor contracts with its workers, one with management and administrative personnel represented by the Alaska State Employees Association and a second with mechanics and vehicle drivers represented by Laborers' Local 942. Employees will receive a 0.5 percent pay raise as well as improvements in benefits. Savings to the borough are estimated at \$500,000 per year. Another contract, with the Fairbanks North Star Borough Employees Association, will be before the borough assembly in late February.

TOURISM UP SHARPLY IN INTERIOR IN 2017; 2018 LOOKS GOOD: Tourism was up smartly in Interior Alaska in 2017 and the trend looks to continue in 2018. Visitor hotel/motel revenues reported, which are a key indicator, were 30 percent up in the first quarter of 2017 compared with first quarter 2016. Data for the remaining quarters of 2017 is still being calculated. Gross hotel/motel receipts, from which bed tax collections are made, show a steady upward trend, with \$56.8 million spent in the Interior in 2014; \$59.7 million in 2015,

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Petroleum:

Conoco: \$283 million 4th quarter profit

ConocoPhillips reported a \$283 million in adjusted earnings for the fourth quarter, 2017, and \$652 million for the year, the company said Feb. 1. Production was up 4,000 barrels per day in 2017 to an average of 167,000 barrels per day. ConocoPhillips owns major shares of the Prudhoe Bay, Kuparuk River and Alpine fields on the North Slope. Also on Feb. 1, the company reported that it will acquire Anadarko Petroleum Corp.'s 22.45 percent stake in the Alpine oil field, where ConocoPhillips is majority owner, as well as Anadarko's share of new projects under development in the National Petroleum Reserve-Alaska.

BP contract to Bristol Bay company

BP awarded a contract for pipeline and infrastructure integrity inspections to Kakivik Asset Management, a subsidiary of Bristol Bay Native Corp. The contract was previously held by Mistras Group. Kakivik and other BBNC companies, such as CCI Industrial Services, have been engaged in quality-control inspection work for years on the slope. CCI employs 242, which won't change. Mistras employed union workers and 182 of its 261 employees are represented by the Quality Control Council of the United States, its bargaining unit. Kakivik is nonunion. Kakivik said it will hire more than 200 on the contract. Mistras laid off its 261 workers. Many of those are likely to work for Kakivik. The contract will change April 1.

Merged Agrium considers Kenai plant

Alberta-based Agrium Corp, owner of the closed Kenai fertilizer and ammonia plant, has merged with Potash Corp., of Saskatchewan, to form a new company, Nutrien. Agrium has been working on a possible restart of the plant but that is now on the back burner as the new company sets its priorities, which is expected to take about six months. The biggest challenge in the plant restart is securing a supply of natural gas at reasonable prices. At full capacity, the plant would need about 155 million cubic feet of gas per day, or 56 billion

Agrium Kenai plant (Cont.)

cu. ft. per year. That compares with about 33 billion cu. ft./year used by Enstar Natural Gas, the regional gas utility. A restart would cost about \$275 million, Agrium estimated.

Hilcorp: \$285 million in Alaska

Hilcorp Energy will spend about \$285 million in its Alaska operations in 2018 with \$83 million planned for new drilling; \$106 million in various facility upgrades and \$96 million for operations. The company is working on its new Moose Pad project in the Milne Point field on the North Slope and plans seven new wells in Cook Inlet including five at its offshore Steelhead platform and two onshore wells at the Swanson River oil field or in new gas exploration. More onshore wells could be drilled, also. Hilcorp briefed local business leaders recently in Kenai on the company's plans.

Murkowski to Zinke: Drop some OCS

Sen. Lisa Murkowski asked Interior Secretary Ryan Zinke to remove areas in the Gulf of Alaska and Bering Strait region off western Alaska from a proposed Outer Continental Shelf leasing plan. Murkowski said she supported proposed sales in the Arctic and Cook Inlet. Zinke has already removed areas off Florida's coast from the OCS plan after protests from Florida's governor, who is a Republican.

Bank of China officials in Alaska

Bank of China officials were in Anchorage Jan. 23 to assure Alaskans of the bank's serious interest in helping finance the proposed \$43 billion Alaska LNG Project. The managing director of the bank's New York branch, spoke at the Alaska World Trade Center's annual conference promoting trade ties between Alaska and China. Many details are yet to be worked out on the deal. Sinopec, the Chinese energy company, would be a major customer; Bank of China would provide financing and China Investment Company would be an investor.

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Fisheries:

Big cut to Southeast king quota

The state Board of Fisheries has sharply cut the quota of allowable king salmon harvests in an effort to help stocks recover. The move will affect troll, gillnet and sport fishermen. Trollers say they will be affected significantly because they make about half of their income from king salmon.

Octopus plant in Unalaska

Construction will start in June on a small octopus processing plant in Unalaska planned by local entrepreneurs, doing business as the “Raven Bay Octopus Project.” The plant will purchase octopus caught in pots by harvesters during cod fishing. The plant will be equipped with a “blast” freezer and small packaging plant, and will be able to process about 150,000 pounds of octopus annually. Sales are planned mainly to the high-end restaurant trade. Once up and running the plant could provide a commercial outlet for other minor fisheries harvests.

Minerals:

Ucore plant in Ketchikan is possible

In a new study, Ucore Rare Metals says Ketchikan is the best location for a rare earths processing plant that would use ore extracted from the company’s planned Bokan-Dotson Ridge mine on southeast Prince of Wales Island. There is no estimate of timing as to when the mine and plant would be built. The company has been exploring a large rare earths deposit for several years. The plant would employ 30 at its full build-out and would require a five-acre site.

Pebble takes EPA action in stride

Pebble Partnership is taking the latest pullback by EPA over its proposed Pebble Mine in stride. The company appears confident that the engineering and environmental work in its new mine plan will withstand scrutiny by the U.S. Army Corps of Engineers and that ultimately EPA will agree. EPA reversed

Pebble on EPA action (Cont.)

course on Pebble recently, saying it would back restrictions on stream miles affected, wetlands acreage and stream flow volumes developed by EPA under the prior Obama administration. Pebble says those were based on hypothetical mine scenarios that did not consider mitigation. Now that the company has an actual mine plan before the federal agencies, Pebble believes it can convince the agencies.

Revenues, taxes, jobs from mining

Here are a few points from the annual Alaska Miners Assoc. and Council of Alaska Producers presentation made to state legislators Feb. 13:

- Average annual pay for a mining job is \$108,000/year.

\$34 million was paid in taxes to local governments by mining companies in 2017; \$61 million was paid to the state government in taxes and royalties; \$49 million was paid in other state revenues, such as in fees.

- Royalties to NANA Regional Corp. from the Red Dog Mine totalled \$1.5 billion from 1982 to 2017. One billion dollars of this was paid out to other Alaska Native corporations under Section 7i of the Alaska Native Claims Settlement Act.

Arctic:

It’s official – China wants to play

China now considers itself officially as having an interest in Arctic matters. In a policy paper issued by the the State Council, China’s cabinet, officials said the nation is a “Near-Arctic State” with a stake in shipping, scientific research and resource exploitation. China’s growing interest is long known but the paper puts a policy stamp on it. The paper promised support for international Arctic cooperation, new shipping standards and prevention of environmental degradation.

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Business Intelligence - continued

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and \$65.1 million in 2016. Explore Fairbanks, the local visitor promotion group, said the key to stimulating regional tourism growth is establishing direct air flights to more Lower 48 cities. The group is now working on getting direct flights to Pheonix, San Francisco and Los Angeles.

ALASKA POPULATION DIPS AS OUTMIGRATION TOPS IN-MIGRATION, NEW BIRTHS: Alaska's population dropped in 2017 for the first time in 29 years, state demographers said. The state population is now estimated at 737,080, or 2,629 below the estimate for 2016. About 8,800 more people left the state than arrived in 2017, but the net loss was reduced by new births.

WASILLA BANS DISPOSABLE SHOPPING BAGS; THIRD CITY IN STATE TAKING ACTION: Wasilla's city council voted to ban disposable shopping bags, joining Bethel and Cordova in the adoption of local laws prohibiting the bags, which have become a public nuisance. Based on Wasilla's action, the Matanuska-Susitna Borough postponed action on a proposed 10-cent-a-bag excise tax on retailers with sales of \$1 million or more. Most of the borough's large retailers are within Wasilla's city limits.

ENVIRONMENTAL GROUPS FILE SUIT OVER IZEMBEK ROAD: It was expected, but environmental groups filed suit against U.S. Interior Secretary Ryan Zinke on his decision to allow a road in the Izembek Wildlife Refuge, which is classed as wilderness, from King Cove to Cold Bay. Trustees for Alaska, an environmental law firm, filed the suit Jan. 31, nine days after Zinke's decision to approve the road. Zinke's predecessor Sally Jewell had blocked the project. King Cove had been pushing for the road for years to support medical evacuations from the King Cove airport but Jewell, and environmental groups, resisted on the grounds that a road built through a federally-designated wilderness area would set precedent. The U.S. Interior Dept. Signed a land-exchange agreement with King Cove Corp. that will allow the long-planned but highly contested access road connecting the King Cove community to Cold Bay, where there is a major airport suitable for medical evacuations.

JUNEAU HOPES TO LAND COAST GUARD FAST-RESPONSE CUTTER: Juneau is hoping to land one of the new U.S. Coast Guard fast-response cutters slated for Alaska after the cutter Liberty, based in the capital city since 1988, is decommissioned in 2023. The Coast Guard has stationed two of its fast-response 154-foot Sentinel-class cutters in Ketchikan and is considering four more to be based in Alaska.

ANDEAVOR BUYS KENAI LNG PLANT FROM CONOCOPHILLIPS: Andeavor (formerly Tesoro) has purchased the former ConocoPhillips liquefied natural gas plant at Nikiski, near Kenai. ConocoPhillips had been trying to sell the plant, which is mothballed, for several years. Andeavor said it will use the plant to support operations at its nearby fuels refinery, and is "studying other options," it said. The plant supported regular shipments of LNG to Japan from 1969 to 2012, with sporadic spot-cargo shipmentys made until 2015. *Kenai's mayor said Andeavor bought the plant for \$10 million but neither company would confirm that.*

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