

# Alaska Economic Report

*Tracking resource, business, industry  
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Publishers: Mike & Tim Bradner (907) 440-6068  
3037 South Circle, Anchorage, Ak. - 99507

Oct. 29, 2018  
No. 17/2018

## Governor's race – stakes are high

***Republican Dunleavy said to have edge***

It is eight days until the November election and the street talk is the Alaska governor's race is Republican Mike Dunleavy's "to lose," meaning unless there's an unexpected upset Dunleavy is likely to prevail over Democrat Mark Begich. Gov. Bill Walker's surprise withdrawal from what was a three-way race (in which Dunleavy was still favored) has only seemed to solidify the Republican's lead because Begich is unlikely to capture enough of Walker's independent voters. What further complicates things is that Walker's name will appear on the Nov. 6 ballot (ballots had already been printed at the time of the governor's withdrawal) which means the governor will get a number of votes out of confusion or as protests by voters who do not like the remaining candidates. In a tight race that would be enough to tip the outcome. However, Begich is an aggressive and

experienced campaigner with statewide name recognition from his term in the U.S. Senate and his two statewide campaigns, one in 2008 to gain the Senate seat and the other in 2014, when he narrowly lost to Dan Sullivan, who is now in the Senate.

*Begich's endorsement of the salmon initiative, Ballot Measure 1, cost him the support of two influential rural groups, Calista Corp. and Arctic Slope Regional Corporation. Both endorsed Dunleavy.*

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## **Broadband consumer costs in rural Alaska could be cut:**

***Plan for new Alaska telecom satellite; contracts near***

Alaska-based Pacific Dataport, Inc. is close to final agreements for a plan to launch a geostationary communications satellite positioned to cover all of Alaska. The new satellite could cut consumer costs for broadband Internet in rural communities to the 65 cents-per-gigabyte range, the company hopes, a bargain compared with prices typically in the \$2.50-per-gigabyte range for existing con-

sumer internet service using terrestrial-based systems, including fiber-optic. Although the 65 cents price is aimed at consumers the new service could cut costs for schools and other institutional users. For some types of internet terrestrial is still superior because of the slight lag in timing with satellite which may be important for schools and agencies, but it should not be a disadvantage for typical consumer services, the company says.

## **Transportation:**

### **Maersk finished Arctic test run**

The container shipper Maersk Line has completed a test voyage across Russia's Northern Sea Route, or NSR, with its Venta Maersk, one of its smaller container ships (3,600 container capacity). The voyage was a test run to assess the idea of Arctic shipping, and not intended to be a start of regular service, Maersk said. Some competitors like China's Cosco have sent about a dozen general cargo ships across NSR but not a container ship. Sovcomflot, the Russian tanker company, has made about 100 transits this summer carrying crude oil, and ice-class liquefied natural gas carriers are moving LNG from Russia's Yamal Peninsula LNG export plant in the Arctic. Maersk said it has no immediate plans to use the NSR regularly, however.

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### **Ravn owners buy PenAir**

Peninsula Aviation Services Inc., an affiliate of the Ravn Air Group, bid successfully for assets of bankrupt PenAir in an auction in early October. This keeps PenAir serving Southwest Alaska as a regional carrier, and owned by an aviation company with rural Alaska experience. The bid was \$12.3 million. Following the sale PenAir and Ravn will operate as sister companies. The bid was in cash and the assumption of PenAir's liabilities. The only other bidder was Wexford Capital, an East Coast hedge fund manager. Alaska Airlines, which had been approved to make an offer, chose not to bid.

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### **Coal exports from Adak?**

Interior Secretary Ryan Zinke floated an idea to use west coast military installations as terminals to export fossil fuel products like coal as a way to circumvent local opposition on west coast ports. Zinke mentioned only one specific port, however – the closed naval air station at Adak, in the Aleutians, which is now partly owned by the Aleut Corp. Alaska coal for export could be shipped by barge from the North Slope, Zinke suggested.

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## **Energy:**

### **Electricity consumption dropping**

Energy Consumer use of electricity is dropping due to wider adoption of energy conservation practices. Chugach Electric Association said usage of electricity per residential member has dropped 14 percent since 2004. While weather and the trend toward warmer winters accounts for some of this, the primary driver is energy efficiency.

While this has the effect of reducing natural gas demand, and conserving regional gas supplies, it increases the percentage of renewable energy from hydro and wind in Chugach's supply portfolio. In 2017 Chugach's energy supply was 80 percent gas; 16 percent hydro and 4 percent wind. In 2011 the ratio was 92 percent gas and 8 percent hydro (wind did not come into Chugach's mix until 2012).

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## **Telecom:**

### **GCI hit with cut to federal support**

General Communications Inc., a major Alaska telecom provider, will see federal payments to support rural health internet service of \$77.8 million next year, or \$28 million less than the company requested to cover its costs. The new rate finding follows a proceeding involving support payments under the Federal Communication Commission's Rural Health Care program where the FCC paid subsidies to Alaska telecom operators to cover cost differential between internet service to rural health clinics and urban clinics. An FCC investigation found that some of the Alaska telecoms were inflating their rural rates. GCI has objected to the decision, saying it forces the company to absorb the costs after GCI has invested heavily in rural communications infrastructure. Last June the FCC increased the available funding for the Alaska rural health care support from \$400 million per year to \$571 million, and then to \$581 million with an inflation adjustment.

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## **Permanent Fund dividends hit the streets**

### **\$940 million roll into bank accounts; cash registers jingle**

About \$940 million rolled into Alaskans' bank accounts Oct. 4 with the state's 2018 Permanent Fund dividend electronic deposits. This set cash registers ringing around the state, mainly in retail stores. Payments subsequently made by check will bring the total to over \$1 billion. About 640,000 Alaskans will receive the PFDs this year, state officials said. Beefing up the dividend is being promised by both major candidates for governor this year. Their proposals would have add another \$800 million or do this year, but to the detriment of the state budget.

## **Timber:**

### **Mat-Su timber project on hold; China flap is blamed**

A promising project to harvest mainly damaged timber in the Matanuska-Susitna Borough is on hold because of the U.S.-China trade spat, officials with the timber company have told the borough. The problem is the tariff that China would impose on timber imported from Alaska, which is a response to tariffs on Chinese imports ordered by President Donald Trump. Borough officials had hoped the project would bring in about \$900,000 a year in fees to use the borough's Port MacKenzie, which would essentially allow the port to break even. Denali Timber Management is the company proposing the project. The venture would harvest beetle-damaged timber in the Trapper Creek area in northern parts of the Mat-Su.

*The spruce bark beetle infestation has covered about 558,000 acres of forest land this year mostly in the Matanuska-Susitna Borough, foresters in the U.S. Forest Service and Alaska Division of Forestry said. About 52,000 acres in the Kenai Peninsula have also been infected. Since 2015 over 1 million acres of Alaska forest land have been hit by the beetles.*

## **Economy:**

### **Here are the numbers for Alaskans' annual fall rite: Moose hunting**

The fall moose hunt is a time-honored Alaska tradition, but how much meat does the annual rite put in the freezer? And how much money is spent? Ned Rozell, science writer at the University of Alaska Fairbanks' Geophysical Institute, cites studies showing that 29,000 Alaskans and nonresidents harvest about 7,200 moose yearly, and assuming each of these 1,600-pound animals yields 700 pounds of sliced and wrapped meat, totaling about 3.5 million pounds. Surveys show 90 percent of rural households surveyed put moose on the table, and hunters overall, rural and nonrural, spend about \$79 million on the annual moose hunt, much of that for gasoline for trucks, four-wheelers and riverboats. Rozell credits UAF master's student Tessa Hasbrouck for the results, which are in her thesis.

Meanwhile, how much forage do moose need to get through a winter? Rozell cites Tom Seaton of the state fish and game department for an estimate that moose need about 30 pounds a day of live frozen twigs. Other tidbits: There are about 175,000 moose in the state, and about 23 percent of hunters actually get an animal.

# Business Intelligence

## Alaska Permanent Fund will set allocation for in-state investment

The Alaska Permanent Fund will allocate up to \$200 million in a special fund for Alaskan investments and hire a special manager to manage the program, Fund managers said. Under guidelines set by the Board of Trustees the investments will have to be capable of earning what the funds would have returned if invested out of state. The goal is to also attract other investors to join the Fund in projects, to share risks. The \$64 billion Permanent Fund has never had a specific allocation for in-state investments although there has never been a barrier to it. One of problems with Alaskan investments is that they tend to be too small for the Permanent Fund to do efficiently.

### **McDowell Group: Tourism climbed 4 percent in 2017, spending \$3.2 billion in the state**

Summer tourism climbed 4 percent in 2017 to 1.926 million visitors, mostly driven by higher cruise ship travel, which increased 6 percent. That's according to data compiled by University of Alaska economics professor Scott Goldsmith. Cruise passengers accounted for 57 percent of total visitors. Goldsmith's reports are published by First National Bank Alaska. Data for the 2018 summer season isn't yet final but the totals are expected to be over 2 million. Preliminary data shows cruise ship visitors up 7 percent in 2018.

### **2020 census to start in western Alaska village**

The 2020 national census will start in Toksook Bay in southwest Alaska in January 2020, census officials told delegates to the Alaska Federation of Natives in mid-October. This is in keeping with the tradition of starting the count in an Alaska village. Toksook Bay has about 700 residents. The census will hire several hundred Alaskans to the count in more than 240 communities.

### **Retailers close, consolidate in Anchorage as recession bite continues**

Retailers in Anchorage are consolidating or closing. Recent casualties, Daily News reporter Annie Zak wrote, include long-established midtown restaurants Sea Galley and the Pepper Mill, which are adjacent to each other on C Street. Both closed in October, as did the Rice Bowl, a longstanding downtown restaurant. Bed Bath & Beyond is closing its east Anchorage store but will keep its south Anchorage store.

Other shifts are underway in Anchorage retail. The move by REI to the Midtown Mall (where Sears recently vacated) and plans by Safeway to build a new grocery there will rejuvenate that facility. The location is well-suited to withstand online retail competition, given its location at major intersections with some of Anchorage's highest traffic counts.

### **Costco opens in Fairbanks Nov. 20**

Costco will open its new Fairbanks store on Nov. 20, the company said. The store will be located in the former Sam's Club in the city, which closed due to a corporate reorganization. Costco will employ about 290, including some seasonal workers, at the store. That will include 20 former Sam's Club workers.

*Alaska employment dropped another 0.6 percent in September compared with the same month of 2017, a loss of 2,000 jobs. Construction was up slightly by 200; oil and gas showed another drop, of 400 jobs.*

## **Alyeska Resort is sold to Canadian company**

Pomeroy Lodging of Alberta is purchasing Alyeska Resort, a popular ski area and 300-room resort hotel in Girdwood, south of Anchorage. The sale is expected to close by year-end. Idaho businessman John Byrne is the current owner. Pomeroy Lodging owns 18 hotels in western Canada including a 408-room lodge in the Canadian Rocky Mountains. This would be Pomeroy's first acquisition outside Canada. A sales price was not disclosed but the Alyeska property was assessed at \$45.8 million on the Municipality of Anchorage 2018 tax roll. The resort is 60 years old but the present hotel and tram were built 25 years ago.

## **Mat-Su Borough costs for hacking hit \$2 million**

The Matanuska-Susitna Borough incurred costs of \$2 million in responding to recent cyberattacks that shut down municipal computers last summer. About 35 to 40 percent of costs are related to installation of advanced security measures. The attacks, in July, took out 850 desktop computers and three servers. The borough assembly was asked to move \$1 million from two emergency reserve accounts to cover part of the cost. Insurance may cover remaining costs.

#### **Exxon Valdez trust considers alternate use of spill funds**

The Exxon Valdez Oil Spill Trustee Council is considering a plan to use about \$200 million in remaining funds in the trust to build new facilities for research organizations and to drop additional steps in habitat restoration or preservation. The council met Oct. 17 to discuss the proposal, which was put forth by the Rasmuson Foundation. Conservation group are objecting, saying the trust funds should continue to used for environmental restoration, the original purpose. The trust was established after the 1989 Prince William Sound oil spill, caused by the grounding of the tanker Exxon Valdez.

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## Petroleum:

### Work on GMT-2 starts this winter

ConocoPhillips approved construction of the GMT-2 project in the National Petroleum Reserve-Alaska after the U.S. Bureau of Land Management approved its Record of Decision for the project. Construction will start this winter. The plan is for a 14-acre drill pad supporting up to 48 wells, an 8.2 mile road and an 8.6 mile pipeline. The road and pipeline connect with GMT-1 and the CD-5 production site further east, and ultimately the Alpine field on state lands near the Colville River.

GMT-2 is scheduled to be in operation in 2021, and will see peak production of 35,000 barrels per day to 40,000 barrels per day.

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### GMT-1 starts up ahead of schedule

ConocoPhillips started up its new GMT-1 project in the National Petroleum Reserve-Alaska Oct. 5, several days ahead of schedule. Several wells are now drilled but two that are on-line are now producing over 3,000 barrels per day each, according to state Department of Revenue data.

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### Winter exploration shapes up

Great Bear Petroleum filed an operations plan with the state Division of Oil and Gas for its Winx No. 1 well near the Colville River. The well must be drilled by May, 2019, under an agreement with the state. Three Australian companies, 88 Energy; Otto Energy and Red Emperor, are partners with Great Bear. The prospects being tested are near where Armstrong Oil and Gas drilled and found oil in the Nanushuk formation. Great Bear and its partners will test the Nanushuk on its leases. Oil Search, the new owner of Armstrong's interests and operator of the Pikka project, plans two wells this winter, one in the southern part of its leaseholds and the second the central part. These are delineation wells aimed at obtaining more reservoir information for development.

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### BP plans new seismic, drilling

BP is planning a \$40 million 3-D seismic survey across the Prudhoe Bay field this winter, using advanced techniques to better define faults and remaining oil pockets. The company also plans to resume drilling with two new drill rigs in January after temporarily pausing drilling last summer. Prior to the oil price crash in 2015 BP had five rigs at work in Prudhoe. BP also said it plans to drill two new wells in west Prudhoe "satellites" that produce viscous oil. The drilling is part of a broader effort to gradually expand viscous development.

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### State submits offer to buy own gas

Alaska Gas Development Corp., or AGDC, submitted the only expression of interest in North Slope state royalty gas in a recent solicitation of interest published by the Department of Natural Resources. The response is just the start of a procedure for the state to take its royalty "in kind," or in the form of gas, rather than in value, or cash. Since AGDC is a state corporation this is essentially state selling royalty gas to itself but the transaction must still be arms' length, as if AGDC were a private buyer. Presuming the royalty-in-kind decision is made and AGDC gets control of the gas, the corporation now would have most of the gas needed for the Alaska LNG Project. This follows a recent gas agreement with ExxonMobil and an earlier agreement with BP. Negotiations continue with ConocoPhillips, the one remaining major gas owner on the slope.

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### Hilcorp completes Inlet pipe project

Hilcorp Energy completed its \$75 million project to convert a cross-Cook Inlet gas pipeline to ship crude oil. This will eliminate the need to move oil by shuttle tanker from west Inlet oil platforms via the Drift River oil terminal to the Marathon Oil refinery at Nikiski, on the east side. It will reduce transport costs from \$3 per barrel to \$2 per barrel, the company said, extending the economic life of the aging oil platforms.

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## **Fisheries:**

### **Winter crab fisheries kick off**

Alaskans are gearing up for winter crab fisheries. The big Bering Sea snow crab season will have a 27.5 million pound catch quota, up 47 percent from last year. The Tanner crab take will be down 2 percent, to 2.4 million pounds, while the red king crab harvest in Bristol Bay will be down 36 percent, to 4.3 million pounds. Red king crab stocks have been down and harvesters were worried there might not be a fishery this year.

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### **Tanner crab in Sound again**

In Prince William Sound it looks like there will be another Tanner crab fishery in March following last year's experimental opening, in which 15 harvesters netted 32,000 pounds of crab. Before 2017 there had not been a winter Tanner harvest since 1988. Harvesters and processors welcomed the development, which helped diversify harvesters in the Sound away from total dependence on summer salmon catches.

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### **Pollock, cod quotas for 2019**

The North Pacific Fisheries Management Council will consider proposals to increase the Bering Sea pollock harvest limit to about 1.4 million metric tons, or about 3 billion pounds. Bering Sea Pacific cod catches could be reduced by 64 million pounds, however, to a harvest limit of 350 million pounds.

Bering Sea cod may be moving north into cooler waters. Survey results in 2017 and 2018 show the cod biomass dropping 21 percent in the southern Bering Sea but increasing by 95 percent in northern areas. The northern and southern cod are genetically similar, so it's unlikely cod are migrating into the northern areas from elsewhere.

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### **A little tariff relief for fish products**

Two categories of salmon fillets imported from China were dropped from the list of Chinese imports subject to U.S. tariffs. The products are valued

### **A little tariff relief for fish (Cont.)**

at \$230 million but not all of that is for fillets made from salmon caught in Alaska and exported to China for processing and reexport to the U.S. Some types of cod and pollock products, also from fish caught in Alaska, were removed from the list but some products, including salmon, remain subject to tariffs.

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## **Minerals:**

### **Permit work to start on Arctic**

Trilogy Metals Inc. is now engaged in pre-permitting work on its planned Arctic project, which is mainly copper, with work on a Draft Environmental Impact Statement for development set to begin early next year, company officials told business leaders in Anchorage in early October. On a parallel track, the U.S. Bureau of Land Management is working on plans for an 311-mile access road to the Ambler Mining District from the Dalton Highway, with the draft EIS expected out next March and the final document later in the year. The state's Alaska Industrial Development and Export Authority is proposing the single-lane industrial road, with costs estimated at between \$305 million and \$346 million.

AIDEA would issue bonds to finance the road, with mining companies paying tolls for its use. A similar model is in used at the Red Dog Mine road north of Kotzebue, which is also owned by AIDEA. Once Arctic is operating, Trilogy will be able to use its facilities to develop the larger Bornite copper deposit that is about 20 miles west.

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### **Ucore: Ketchikan plant site**

Ucore Rare Earth Metals has selected a six-acre site in Ketchikan for a rare earths processing facility for its mine, also planned, on Prince of Wales Island. The Ketchikan plant would process ore into final rare earth products. Engineering and construction would occur in 2019 and 2020, and the company hopes to be in production in 2020.

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## **Business Intelligence - *continued***

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### **Marijuana sales taxes hit new record**

Marijuana sales tax revenue reached \$1.54 million in August, another record, the state Department of Revenue reported. In July the state collected \$1.37 million. Overall the state has collected \$15.8 million since tax collections began in October 2016.

### **With loss of hockey team, business is down for Anchorage's Sullivan Arena**

Anchorage's Sullivan Arena, one of the city's premier event facilities, is feeling the effects of the recession and the loss of the Alaska Aces hockey team. The University of Alaska Anchorage hockey team still plays at the Sullivan but attendance has dropped. The arena lost more than \$600,000 in 2016 and \$385,000 in 2017. Municipality of Anchorage, which owns the Sullivan, is picking up the losses and recently voted a \$250,000 payment to help fill this year's deficit. Sullivan managers have cut staff and costs and have a new strategy to attract smaller and more numerous events and will meanwhile invest in needed upgrades.

### **Prisoners on work-release may work in Southwest Alaska fish processing plants**

State corrections officials are discussing a plan to allow prisoners in the last six months of their sentences to work in seafood plants in Unalaska and Akutan. Seafood companies are having trouble getting labor and the controlled work and monitored dormitory environment can help in rehabilitation. Two seafood companies in the region are interested but local officials must agree.

### **New missile interceptors to be installed at Fort Greely**

Congress approved funding for two new missile launch silos at Fort Greely and authorization for more missile interceptors, bringing the count to 62 within five years.

### **Vigor shipyard in Ketchikan launches second new state ferry**

The new state ferry Hubbard was launched Oct. 12 at the Vigor Alaska shipyard in Ketchikan, with remaining work to be done on the water. Two new "Alaska-class" ferries were built at the shipyard. The shipyard is now putting finishing touches on the other ferry, the Tazlina, in preparation for turning it over to the state ferry system.

## **Fisheries:**

### **State fisheries board turns down request to curtail hatcheries**

The state Board of Fisheries denied a request Oct. 16 by sport fishing groups to rollback hatchery releases of salmon fry statewide and approved an expansion for Valdez Fisheries Development Corp., operator of the Solomon Gulch hatchery in Prince William Sound. Sports groups argued that increasing numbers of hatchery-released fish are competing with wild salmon for food in the ocean. Commercial fish groups argued the science is uncertain, and hatcheries are vital in smoothing out wild salmon runs, which can be very volatile.

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