

Alaska Economic Report

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Welcome, Governor-elect Dunleavy

Oil prices, production both decline; could PFD plan imperil budget?

Call it the curse of the newly-elected: In 2015, just as Gov. Bill Walker took office, oil prices and state revenues collapsed. Now, as Gov.-elect Mike Dunleavy prepares to assume office Dec. 3, oil prices are again falling and, more troubling, oil production is trending down after three years of stability (*see page 8*). A new factor is that Dunleavy's campaign pledge to "fully fund" Permanent Fund dividends and restore PFD payments for three years of underfunding, from a formula set in state statute, could return the state to running big deficits. This time, however, the state's Constitutional Budget Reserve is essentially drained except for funds needed for the state's month-to-month cash requirements.

Still, the new governor comes in on a wave of goodwill and his comments since the election, still

mainly off the campaign script, are on rejuvenating the state's economy, principally through its natural resource industries. That will take time, and the new governor is benefiting from an upsurge in new North Slope activity and discoveries. There's optimism in the mining industry, too, with big projects like Donlin Gold having cleared federal hurdles. Dunleavy is likely to have an open mind on the big Pebble copper/gold project also, which Gov. Bill Walker has opposed.

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Election aftermath:

Dunleavy set to take over; cliffhangers on House, Senate organization

Governor-elect Mike Dunleavy's first cabinet appointment – Corri Feige as Commissioner of Natural Resources – is getting high marks, although current Commissioner Andy Mark is well regarded, too. Dunleavy's appointment of Tuckerman Babcock as Chief of Staff has raised eyebrows, however, because of Babcock's track record as a political operator (he is Republican Party chair).

Meanwhile, the House and Senate organizations await the final outcomes of two nail-biter close races, one in the state House and the other in the state Senate. Depending on the final outcomes the House could be in a 20-20 deadlock in electing a leadership. The Senate contest is over whether GOP Sen. Pete Kelly will survive. Kelly is now the Senate President. If he winds up losing it will change the chemistry of the Senate.

Health Care:

80th-percentile rule change

Consideration of a revamp of the so-called “80th percentile” rule that sets a guaranteed level of reimbursements to health care providers, mainly physicians and specialists, is on hold during the transition from Governor Bill Walker’s administration to the incoming administration of Governor-elect Mike Dunleavy. That also means it will take time for Dunleavy’s people coming in to come to grips with the problem among many others they will juggle. The 80th percentile rule requires payment at the 80 percent level of average charges by providers. Critics say the formula lends itself to manipulation and higher costs, but physician groups fiercely defend it.

ACA enrollment expected up

State officials expect an increase in Affordable Care Act individual health insurance enrollment this year with the annual “open season” for signing up underway until Dec. 15. Premium costs are decreasing at an average of 6.5 percent below last year, but some policyholders may see lesser, or greater, decreases.

Alaska care is most costly

A new report from the University of Alaska Anchorage’s Institute of Social and Economic Research documents an almost doubling in Alaska spending on health care between 2005 and 2014, from \$4.8 billion in 2005 to \$8.2 billion in 2014. The amount was \$1.5 billion in 1991. The average American spent \$8,000 on health care in 2014; the average Alaskan spent \$11,000, ISER said in the report.

Energy:

Low water worries ease in SE

Worries over low water levels in Southeast hydro facilities due to summer drought have eased with

Water worries in SE (Cont.)

recent rainfall. However, Ketchikan had to fire up its diesel generators early but an increase in water levels in Swan Lake should allow the diesels to be shut down in mid-November.

Siemens modular LNG project

The Interior Gas Utility, of Fairbanks, has entered into an agreement with Siemens to investigate the company’s proposal for a modular liquefied natural gas plant at Houston, on the Parks Highway, to support delivery of trucked LNG to the Interior city. IGU’s board also decided to investigate an existing plan to expand the small LNG plant near Point MacKenzie, in the Matanuska-Susitna Borough, that now supplies the LNG being trucked up the Parks Highway. The utility board is asking for more information on Siemens’ estimated cost of delivery and the capital cost of expanding the existing plant.

Fisheries:

Fishermen shifting to Bristol Bay

More fishermen from Southeast and Southcentral Alaska are planning moves to the healthy southwest Alaska fisheries in Bristol Bay and around False Pass after a poor salmon year across much of coastal Alaska, fishing permit brokers are reporting. Bristol Bay permit prices are rising as a result, averaging \$165,000, up from \$145,000 before the 2018 season, which was another record-breaker for harvests. Prices for permit sales in False Pass, which also enjoyed a good season, were even higher over Bristol Bay.

The overall 2018 Alaska salmon catch was down 30 percent below projections to 114 million fish compared with 114 million estimated. Harvests were depressed across Southcentral and Southeastern, but Bristol Bay boomed. The ex-vessel value at Bristol Bay (what harvesters were paid) totals \$280 million. This does not include post-season payments.

What business is telling Gov.-elect Dunleavy

Here's a sampling of what business groups want incoming governor Mike Dunleavy to know, drawn from remarks at the Resource Development Council annual conference Nov. 14 and 15 in Anchorage. The new governor takes office Dec. 3.

Tourism, from Scott Habberstad (Alaska Airlines)

The state needs to reinvest some of the revenue received from tourism in marketing and, most important, infrastructure such as port improvements that will support newer and larger cruise ships. The outlook for near-term tourism growth is bright but Alaska must help promote its product because there is big competition including from other northern destinations like Scandinavia, and even New England, which markets similar products.

Minerals groups, from Karen Matthias (Alaska Producers Council)

Make the regulatory process more efficient by attracting and retaining good professional staff. This would demonstrate the quality of Alaska's mining regulation and give the public confidence. Defending, and promoting, the state's mine permit system will attract investors as well as competent staff.

Timber, from Owen Graham (Alaska Forest Association)

Keep up the pressure on exempting the Tongass National Forest from the national "roadless" rule, now being negotiated with the federal government. There is a possibility that the exemption might wind up being only partial, Graham warned. If this happens, half the Tongass could still be "roadless" (with no harvesting) while the other half would be available for harvest. Gov.-elect Dunleavy should push for the federal agency to stay on track with its management of the Tongass. Graham also suggests the state simplify its timber sale process, now complex with overlapping requirements, to get more supply to the small number of remaining sawmills.

Fisheries, from Ricky Gease (Kenai River Sportsfishing Association)

Help ease the perennial Cook Inlet "fish wars" between commercial and sports fishing groups by supporting state Sen. Peter Micciche's proposal for a voluntary buy-down of setnet permits on the Inlet's east side, which have soared in number in recent years putting pressure on sockeye and king salmon runs. Gease also hopes the new governor will support capability of the fish and game department to gather data and use it. Data is key to good management in keeping Alaska's fisheries sustainable.

Oil and gas, from Karen Moriarty (Alaska Oil and Gas Association)

Alaskans need to gird for a fight from environmental groups who want to slow an upcoming Department of the Interior lease sale in the Arctic National Wildlife Refuge. She urged that the "Stand for Alaska" business and labor coalition that defeated Ballot Measure 1 stay intact to help keep ANWR lease sales on track. More Alaskans are coming to oppose ANWR as well, Moriarty told RDC. Last year a resolution in the Legislature supporting ANWR drew 10 "no" votes, more than similar resolutions in previous years.

Business Intelligence

Recession on track to end in 2019, but recovery will be slow

The recession is continuing to soften with job losses in 2018 estimated at 2,000, or 0.8 percent, state economist Neal Fried told the Resource Development Council's annual conference Nov. 14. Job losses are expected to even out in 2019, with slow growth resuming. Still, there's a lot of catching up needed to reach 2015 peak levels. Employment in the oil industry has essentially leveled out after two years of reductions and construction is actually up, Fried told the RDC. Retail is down substantially but that has more to do with corporate decisions on the national level and not so much the state's economy. The loss of sales to e-commerce is also a factor, but that is a national trend. Essentially the state is where it was in 2011. However, unemployment, at 6.5 percent in September, is actually below the state's 10-year average of 7.1 percent. A surprising number of employers cite difficulties in finding qualified workers, Fried told RDC.

Alaska Airlines opens its \$50 million new hanger in Anchorage

Alaska Airlines opened its new Maintenance and Engineering Facility and Hangar at Ted Stevens Anchorage International Airport after starting construction in August 2016. The \$50 million facility more than doubles the size of the older hangar, which is unable to accommodate the airline's next-generation aircraft. The new hanger covers over 100,000 square feet and large enough to house two 737 jet aircraft.

Vector Launch to use Kodiak for test of new rocket

Vector Launch Inc. will do a test launch of its new Vector-R rocket from the Kodiak Launch Complex next April, the company told federal agencies. The company is one of several new space-technology companies carving out a market niche for smaller satellites and rockets. The first launch is intended to test the launch vehicle and will not carry a satellite payload. Alaska Aerospace Corp., a state-owned corporation that owns the launch facility, is positioning itself to serve this new market.

Cost of living decrease for Fort Wainwright soldiers

U.S. Army personnel at Fort Wainwright in Fairbanks will experience a cost of living expense drop in their pay because surveys showed prices dropped between 2016 and 2017 compared with the Lower 48. The cost of groceries, recreation and household items were included in the survey. The decrease amounts to about \$1,200 a year for an enlisted man living on the Army post and about \$1,900 per year for a soldier living off post. Other Interior military installations are not experiencing pay reductions because the COLA surveys didn't show cost decreases. The survey will be done again next year.

New Eielson military arrivals to increase Fairbanks borough population 5.4 percent

The Fairbanks North Star Borough estimates that the arrival of new military personnel and families at Eielson Air Force Base will increase the borough's population by 5.4 percent with 85 percent of new people arriving desiring to live in the North Pole area east of Fairbanks and near Eielson. The projections are in a 454-page Eielson "growth" plan published by the borough to help the community plan for the new arrivals, most coming in 2019 and 2020. Agnew:Beck prepared the report.

About half of Eielson military personnel interviewed for a local "quality of life" portion of the study gave a "B" grade, citing lack of sports and recreation, particularly indoors. They were particularly concerned with lack of shopping opportunities in the North Pole area and said they would like "big box" stores like Fred Meyer, Walmart, Target and Costco.

Trend of homes owned by nonresidents plagues small rural communities

Housing shortages in rural communities aren't unknown but a worrisome trend is the amount of housing stock owned by nonresidents of a community who will not make homes available or who do not maintain the properties. Of 140 properties in Larson Bay, listed on Kodiak Island Borough tax rolls, 74 are owned by residents and 66 are owned by nonresidents of the city, 31 who live elsewhere on Kodiak and 34 who live elsewhere, mostly outside Alaska. The trend is for nonresidents to purchase homes for vacations or seasonal use, or for local residents who retire to move away but retain ownership of their homes. The trends make it difficult to attract or retain young people in Larson Bay, Kodiak Borough officials say. More troubling is that the loss of families with school-age children led to the closure of Larson Bay's school this year.

Aircraft mechanics to be trained in Bethel

Bethel workforce nonprofit Yuut Elitnaurviat is starting an aircraft mechanic training center to offset an acute shortage of mechanics among regional aviation operators. The first class is to begin in February. It will run for a year and a half.

United Airlines to offer summer Fairbanks-San Francisco service

United Airlines will offer summer-only nonstop flights between Fairbanks and Denver and Fairbanks and San Francisco, the airline said. The flights will operate three times weekly from early June to late August.

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Mike Bradner



Tim Bradner

Name _____ Position _____
Company _____ Phone _____
Address _____ Fax _____
City/State _____ Zip _____

E-Mail
timbradner@pobox.alaska.net

Petroleum:

Moose Pad startup in January

Hilcorp Alaska said it will start production at its new Moose Pad project in the Milne Point field in January, on schedule, and that an oil process plant at the site is now 85 percent complete. Moose Pad will eventually produce 85,000 barrels per day. In the short term the company said Milne Point output, which has required a \$400 million investment, will increase from 23,000 barrels per day now to 24,000 to 26,000 by the end of January and 35,000 barrels per day by the end of 2019. Development costs are estimated at \$6 to \$7 a barrel.

Hilcorp said it is also now using a polymer reservoir “flood,” (or injection), the first in Alaska, to boost viscous oil output at the Schrader Bluff project in the Milne field. An oil resource of 1.3 billion barrels is in the rocks at Milne Point but only 10 percent to 15 percent can be recovered. The polymer helps loosen the thick oil, helping it flow and improving the recovery. If the technique works it could be used at other North Slope viscous oil deposits, which contain substantial in-place resources.

Oil Search: Pikka decision in 2020

The U.S. Army Corps of Engineers published the long-awaited Final Environmental Impact Statement for the Pikka oil project near the Colville River, which the corps is calling the Nanushuk development. Australia-based Oil Search is operator with Repsol as minority partner. Oil resources are estimated at 500 million barrels and projected production is 100,000 barrels per day. The final EIS is out for a 30-day public review after which the corps will issue a Record of Decision. Following that, Oil Search and Repsol will have to make the decision to develop the project. The two companies plan two more evaluation wells this winter to better define the reservoir and preparation for drilling, including ice road construction, has started.

Oil Search beefs up its Alaska staff

Oil Search is also beefing up its Alaska staffing. About 80 are employed now and this will reach 100 by mid-January and 200 in 2019. A decision to proceed into final engineering will be made in mid-2019 with a Final Investment Decision in 2020. First production is expected in 2023. The company also said it is planning for 120,000 barrel per day at Pikka, and reserves are now estimated at 720 million barrels. It is hoped that reserves will grow with more drilling.

Eni to do Nikaitchuq tests next year

Eni suspended operations on its closely-watched Nikaitchuq North No. 1 exploration well with plans to resume operations and any flow-test next spring. Drilling ceased in late August in compliance with seasonal drilling restrictions. Eni began the well last December with plans to complete it by February, and also to drill a “sidetrack,” (essentially a second well). The schedule was delayed by “unforeseen” drilling problems, the company said. It did not identify the problems. However, the well would be one of the longest extended-reach wells drilled in Alaska and these long, essentially horizontal wells can encounter technical problems.

Lower Inlet seismic survey: Hilcorp

Hilcorp Energy plans a 3-D seismic survey on lower Cook Inlet federal leases next spring followed by a geohazard survey later in the year or in spring, 2020. The company hopes to drill Outer Continental Shelf exploration wells in the area between 2020 and 2022.

State nets \$29.9 million in leasing

Alaska netted \$29.94 million in bids from a North Slope and Beaufort Sea lease sale held Nov. 15, with Repsol, a major company, submitting the highest bid at \$586 per acre. Independent Lagniappe Alaska LLC, a Louisiana group, acquired the most acreage, acquiring 120 of 133 leases auctioned.

Minerals:

Teck bullish on new zinc prospect

Teck Resources is very bullish about its Aktigirug prospect in northwest Alaska, on state lands about seven miles north of the existing Red Dog lead-zinc mine operated by Teck. Company officials called it “one of the best undeveloped zinc prospects in the world,” in a briefing at the Alaska Miners Association annual conference, held in Anchorage last week. Red Dog is already one of the world’s largest zinc mines. Unlike Red Dog, Aktigirug is not on lands owned by NANA Regional Corp. and would pay royalties to the state rather than NANA, but taxes (most likely a payment-in-lieu-of tax, like at Red Dog) would be paid to the North West Arctic Borough. Also, NANA-owned or joint-venture support companies would be involved at Aktigirug.

New company at “Sun” prospect

A new company has taken over the old “Sun” copper and zinc prospect in the Ambler Mining District, the easternmost of several mineral finds in the region. Valhalla Minerals now owns 230 mining claims covering 36,000 acres that include the Sun prospect, which was originally discovered in 1974. Several companies have explored Sun over the years and to date drilling has defined an ore body with 10.7 million metric tonnes of indicated and inferred resources with grades of 4.2 percent zinc, 1.5 percent copper and 1.4 percent lead. Some silver and gold are also present. If developed, Sun would likely be an underground mine. The mineralization appears to go very deep, the company says.

BLM’s EIS on Ambler road

The U.S. Bureau of Land Management plans to publish a Draft Environmental Impact Statement for the 211-mile Ambler industrial road next March. The state’s Alaska Industrial Development and Export Authority is leading the project, which if built would be paid for by tariffs on ore shipped from mines that could be developed in the region. This is

Ambler road EIS in March (Cont.)

essentially the development model used for the Red Dog Mine road and port, which is owned by AIDEA to support Red Dog Mine production.

Ucore plans for Ketchikan plant

Ucore Rare Metals told local Ketchikan officials that it is still in the due diligence phase in planning for a rare earths processing plant in Ketchikan and has a tentative site chosen. But the company is holding off, for now, in construction of a rare earths mine on south Prince of Wales Island. The plant would process rare earth ores from elsewhere to demonstrate new technology.

Employment in producing mines is up so far this year to 3,126, state labor officials said. Last year there were 3,076 at work, and 2,945 the year before.

Timber:

Tongass plan by Forest Service

The U.S. Forest Service released a draft timber plan for the Tongass National Forest calling for 225 million board feet of timber on Prince of Wales Island including old growth forest to be harvested over 15 years, a reversal of a 2016 policy phasing out cuts of old growth.

Fisheries:

Petersburg Ocean Beauty plant

Ocean Beauty Seafoods has put its Petersburg cannery and bunkhouse up for sale and is asking \$3.39 million. The property covers 3.25 acres and includes a production area, machine shop and storage areas totaling 65,678 square feet including the bunkhouse. The bunkhouse alone is 13,196 square feet. There is also 2,400 linear feet of waterfront access. The company said it will continue to have an office and local staff in Petersburg to support fishing vessels.

Business Intelligence - *continued*

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Fairbanks' airport received a \$750,000 federal grant to help United promote and market the San Francisco route, part of a federal program to entice air carriers to serve more smaller markets with direct flights. Fairbanks-area businesses have agreed to spend \$200,000 on tourism marketing and advertising.

Alaska aviation equipment company buys Arctic fabric manufacturer

Airframes Alaska, an Alaska manufacturer of aviation and airframe equipment based in Chugiak, north of Anchorage, purchased Alaska Tent & Tarp, a maker of Arctic-grade industrial fabrics. Alaska Tent & Tarp operates facilities in Anchorage and Fairbanks. The acquisition will allow Airframes Alaska to better develop several new products, the company said.

\$1 million arts development grant to Anchorage, from Bloomberg Philanthropies

Bloomberg Philanthropies, the foundation of billionaire and former New York Mayor Michael Bloomberg, awarded a \$1 million grant to convert a downtown Anchorage building into a workspace for artists and designers. The refurbished building would be known as SEED Lab (Solutions for Energy and Equity through Design). It will serve as a meeting place where artists, designers, engineers and community members could come together to discuss the future of the city and to look at issues such as climate, food, transportation, housing and migration, said Julie Decker, the Anchorage Museum director. The Museum will lease the building and will work with the city to develop the space.

Bloomberg, in Anchorage for the award, said investment in culture and public art spurs economic growth. "Culture attracts capital (investment) and capital brings culture," he said in an announcement event with Anchorage Mayor Ethan Berkowitz. "Public art can really deliver a message," Bloomberg said. "Think of the impact of the Statute of Liberty in my own city," of New York, he said.

Slope oil production running below 2017

North Slope production Alaska North Slope production is running 17,402 b/d below 2017 for the first 10 months of the year, compared with the same 10-month period of January through October, 2017, according to data provided by the state Department of Revenue. The annual average for the year to date totals 505,184 b/d for the 10-month period compared with 522,586 barrels per day for the same period of 2018, the data shows. The figures are taken from production tax reports filed by producer companies, according to Dan Stickel, the state's chief petroleum economist. *New production from ConocoPhillips' GMT-1, now in operation, and Hilcorp's Moose Pad, to begin in January, will increase the fiscal year average by June 30, however.*

The revenue department is meanwhile preparing its 2018 long-term production and state revenue forecast. The report is usually issued in late November or early December.

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Email: timbradner@pobox.alaska.net