

Alaska Economic Report

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NPR-A oil production will hit state budget by \$250 million/year

Alaskans have been heartened by discovery of more oil on the North Slope but new projects now planned in the National Petroleum Reserve-Alaska will wind up costing the state about \$250 million a year for the first eight years projects are producing and \$1.8 billion over the first 10 years. This is according to an analysis by the state Departments of Revenue and Natural Resources given to state legislative committees Dec. 2.

The loss occurs because of the structure of the state's net profits oil production tax and because the state's 50 percent share of NPR-A royalties go to a special regional "impact" fund that is not available as state General Fund revenues. The state production tax allows capital costs incurred by developers to be taken as a deduction against other Alaska tax liability.

This loss is offset by a share of royalties from NPR-A production that the state would receive. However, the 1976 federal law that authorized the state's royalty share also required that the money go into a special impact fund to offset effects of development in communities on the North Slope. The money is not available for the state budget, in other words.

The DOR/DNR analysis assumes three projects in production and a \$70 per barrel oil price.

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Mechanical contractors, others busy in Southcentral:

Earthquake refocuses attention on building standards

A 7.0-magnitude earthquake in the Anchorage, MatSu region Nov. 30 caused more damage than first believed. There was widespread, mostly small-scale damage to residential buildings but substantial damage to schools and some commercial buildings in the MatSu Borough. Most damage to buildings was in areas like Mat-Su that are not covered by municipal building codes.

There is no estimate yet published of repair costs for schools and the expectation is that the Mat-Su Borough and possibly Anchorage will appeal to the state for help, although some federal funds will be available.

In any event, mechanical contractors and plumbers are hustling to do repairs. Luckily there were no fatalities and few injuries.

Energy:

Juneau's AEL&P to remain U.S.

Juneau's Alaska Electric Light and Power will remain U.S.-owned, at least for now. Washington state regulators turned down a proposed \$5.3 billion sale of AEL&P's owner, Spokane-based Avista, to Canada's Hydro One Ltd., which is based in Toronto. The Washington Utilities and Transportation Commission ruled that Hydro One has not demonstrated sufficient independence and protection from political influence from its former owner and now 47 percent shareholder, the Ontario provincial government.

Delay for Tacoma LNG fueling

A key permit for a small liquefied natural gas, or LNG production facility at the Port of Tacoma intended to fuel TOTE cargo vessels converted to LNG has been delayed from 2019 to 2020. The \$310 million plant itself is under construction. Puget Sound Energy, a regional gas utility, is developing the project. The company has a 25-year tidelands lease on 33 acres at the Tacoma port. The holdup of the air quality permit is mainly due to opposition to the project from local communities and tribal groups. The local Puyallup Tribe and others are questioning the safety of an LNG facility in an urban area. TOTE is a major general cargo supplier to Alaska. Once Tacoma's facility is operating expanded sales of LNG is expected to vessels and coastal Alaska communities wanting to cut dependence on diesel.

Health Care:

Payment problems for nonprofits

There are continuing problems for Alaska Native health care nonprofits not being paid for costs related to services offered by the federal Indian Health Service and Bureau of Indian Affairs. Cook Inlet Tribal Council, which offers substance-abuse treatment, is suing the government to collect overdue

Cook Inlet Tribal costs (Cont.)

payments and won a round in court when a federal judge ruled the denial of payment for overhead expenses is contrary to law. CITC says it is allowed only \$12,000 annually for overhead costs, like utilities, and that this is well below its actual costs, which in 2014 were \$465,000, for example. If CITC cannot be paid its fixed facility costs these must be paid by diverting funds from treatment programs. Ultimately a settlement in the range of several million dollars is likely, attorneys for CITC said.

Infrastructure:

Emmonak dock to be completed

Emmonak will receive a \$23 million federal transportation grant to complete a long-planned dock in the Southwest Alaska coastal community. The grant will fund a permanent dock and barge landing ramp as well as renovation of a 3.5-mile service road. Alaska congressional leaders announce the grant Dec. 7. Emmonak leaders have pushed for completion of the facility for years. Design and engineering, and delivery of some materials, was funded with state capital funds. The dock will improve access for fuel and freight delivery in the Lower Yukon River and delta regions where there are commercial fisheries.

Telecom:

New satellite contract is signed

Anchorage-based Pacific Dataport signed a contract with space technology company Astranis to launch a geostationary satellite dedicated to Alaska. This would replace the aging Aurora 4 satellite, and would also have advanced capabilities. Pacific Dataport would serve existing customers and be able to offer Internet and broadband service to all parts of Alaska at much lower costs than with the existing terrestrial-based service, the company said. The launch will be in 2020.

New Gov. Dunleavy fills out his leadership team

Gov. Mike Dunleavy has named his new leadership team, most with a strong conservative focus but also naming an unusual number of women to cabinet positions. Donna Arduin was appointed Nov. 26 as budget director, heading the Office of Management and Budget. Arduin is well-known in national conservative circles and has advised several Republican governors.

Feige at Natural Resources; MacKinnon at DOTPF; Tangeman at Revenue

Dunleavy appointed Corri Feige as Commissioner of Natural Resources and John MacKinnon as Commissioner of Transportation and Public Facilities. Feige was a past director of the state Division of Oil and Gas Division. MacKinnon, until recently head of the Associated General Contractors' Alaska chapter, was a former deputy commissioner at the state transportation department, which he will now lead. *MacKinnon is interested in getting DOTPF refocused on infrastructure projects, we understand.*

Quick at Administration, Crum at H&SS; Brune at Environmental Conservation

Jonathan Quick, chief of staff to Kenai Borough mayor Charlie Pierce, will be Commissioner of Administration; Adam Crum, a vice president of Northern Industrial Training is Commissioner of Health and Social Services; *Crum already has a firestorm on his hands with key medical doctors at the state's Alaska Psychiatric Institute being fired by the new administration. Alaska faces a serious problem in behavioral health services and API is already understaffed.* Jason Brune, Cook Inlet Region, Inc.'s director of land and resources, will be Commissioner of Environmental Conservation. *Brune is well known and regarded in the state's resource industry community. He has a knowledge of the state's diversified economy as former director of the Resource Development Council and also experience in the minerals industry with Anglo American, a mining company, and Cook Inlet Region, an Alaska Native regional corporation.*

Clarkson is AG; Price at Public Safety; Dahlstrom at Corrections

Kevin Clarkson, an Anchorage attorney in Brena, Bell & Clarkson, is appointed Attorney General. Clarkson's practice has mainly been in commercial law but he has been active in litigation over religious issues. Amada Price, a crime victims' right advocate, is Commissioner of Public Safety; Nancy Dahlstrom, a former Republican legislator recently elected to the state House, will be Commissioner of Corrections.

Ledbetter at Labor; Anderson at Commerce and Economic Development

Tamika Ledbetter, a long-time labor department manager, is the new Commissioner of Labor and Workforce Development; Julie Anderson, an Anchorage business consultant, will head the Dept. of Commerce, Community and Economic Development.

Conservative activists Price, Demboski in governor's office

Jeremy Price, who headed the Alaska chapter of the conservative political group Americans for Prosperity, is Deputy Chief of Staff, working under Chief of Staff Tuckerman Babcock. Former Anchorage Assemblywoman Amy Demboski, will also be Deputy Chief of Staff. Known as a conservative fire-brand, Demboski represented the Chugiak area north of the main city area.

Business Intelligence

New Gov. Mike Dunleavy supports university getting its lands

New Gov. Mike Dunleavy told the Fairbanks News-Miner' editorial board that he favors getting more state land available to the University of Alaska to generate revenue. The UA is a land-grant college that was supposed to get a substantial land endowment, which did not happen. Efforts to get more land to the university have been fought by environmental groups who worry that the UA will move to develop them.

Credit Union 1 opens facility to handle marijuana sales transactions

Alaskan marijuana businesses, dealing only in cash until now, will finally be able to open checking and savings accounts when Anchorage-based Credit Union 1 starts a pilot program to provide those services. Marijuana was legalized in Alaska in 2014, and marijuana-related businesses have sprouted across the state. Credit Union 1's officials noted that offering banking services will also increase their reporting burden but that the lack of financial services had created a "cash crisis and a safety issue in our community." Not only do marijuana businesses deal only in cash, so does the state's revenue department which said that 77 percent of the \$20 million collected in excise taxes so far has been in cash.

Retail marijuana doing well; outlets expand

Retail marijuana seems to be doing well. The state collected \$1.8 million in marijuana tax revenue in October and \$6 million in for the first four months of Fiscal Year 2019. Great Northern Cannabis has opened its second outlet in Anchorage, a 2,200-square-foot outlet on Dimond Blvd. The company's first store is in downtown Anchorage. Great Northern is the first Anchorage retailer to operate two stores under the same name, a branding strategy.

Jury awards former Alaska Dispatch editor \$852,000 in settlement of dispute

An Anchorage jury awarded \$852,000 to Tony Hopfinger, the former Alaska Dispatch News editor in the locally-famous "cocktail napkin" lawsuit filed in 2016 against Alice Rogoff, former owner of the newspaper. The suit claimed Rogoff failed to pay all of the promised \$1 million written out on a cocktail napkin in 2014. Hopfinger received one \$100,000 payment in 2015. Although Hopfinger's lawsuit claimed the Rogoff's words and signature on the napkin amounted to a contract with him, the jury, however, decided it was not technically a contract, but rather an enforceable promise. The award was minus a \$77,000 claim for severance that was part of the lawsuit.

\$8 million approved for renovation of legislative offices in Anchorage

The Legislature will spend \$8 million to renovate its Anchorage Legislative Information Office in the city's midtown. The interim Legislative Council, which handles matters in the interim between sessions, approved the expenditure unanimously, 11-0. The plan is to make the building more functional in terms of constituent access to legislators and public hearings. The building was previously owned by Wells Fargo Bank.

Pre-bid solicitations published for state ferry vessel replacement

The Alaska Marine Highway System published a pre-solicitation notice for a new state ferry to replace the aging Tustumena, which serves Southcentral and Aleutians communities. State officials said the replace-

ment vessel, to be 330 feet by 71 feet, must be able to accommodate 250 passengers overnight and hold 54 cars. Two hundred and forty four million dollars have been set aside for the project, with \$222 million of this from the Federal Highway Administration. A location for the construction will be determined later. The Ketchikan Shipyard, operated by Vigor Alaska, recently built two state ferries.

Anchorage assembly approves sale of municipal utility to Chugach Electric

Anchorage’s municipal assembly formally approved the sale of the city-owned Municipal Light & Power to Chugach Electric Association, the region electric utility. The Regulatory Commission of Alaska must still approve the transaction, a process that is expected take several months. The sale is expected to close late next year or in early 2020. Under terms of the sale Chugach will make a payment of \$768 million to the city with continued payments over several decades that have a net present value of between \$215 million and \$242 million. The municipality will use the proceeds to pay down its debt and capitalize a trust fund.

As slope work picks up, potential bottlenecks in skilled labor supply

Outgoing state labor commissioner Heidi Drygas expressed concern over potential bottlenecks in the high-skill petroleum and construction industries as new North Slope projects ramp up and the large Donlin Gold mine project moves through its final stages of regulatory approvals. Since oil prices collapsed in 2015 the state has lost about 10,000 jobs with 6,500 of these in petroleum and oil and gas, Drygas said. Since these skills are in high demand in the Lower 48, where the economy is booming, many of these workers are likely to have left the state. As the slope projects move along there could be several thousand workers needed and an Alaska skilled labor pool that has been drained, Drygas said. If Alaska skilled workers are not available the companies’ only recourse will be recruiting out-of-state, which will cause labor costs to rise because of the premium needed to get workers to come to Alaska.

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Address _____ Fax _____
City/State _____ Zip _____

E-Mail
timbradner@pobox.alaska.net

Petroleum:

\$28.1 million bid for slope leases

The state received \$28.1 million in bonus bids in its Nov. 15 North Slope and Beaufort Sea “areawide” lease sales, the bulk of the money from Repsol and a newly-formed company based in Louisiana, Lagniappe. Repsol bid top-dollar for selected unleased tracts near the Pikka discovery, in the west-central central slope, where the Spain-based company is 49 percent owner. Lagniappe bid mostly near the state’s minimum per-acre bid but picked up a large 195,200-acre block of leases in the eastern slope south of the Point Thomson Unit. Lagniappe had been incorporated just prior to the Dec. 15 sale. There was one offshore lease bid, by Hilcorp Energy, in the Beaufort Sea submerged lands portion of the sale. Unleased state lands in the southern North Slope “foothills” were offered, but there were no bids.

Repsol’s bids demonstrated that company’s strong confidence in the Pikka project and areas around it, and Lagniappe’s entry demonstrates that independents with new ideas continue to be interested in the slope. Many of the leases Lagniappe acquired were previously leased to ConocoPhillips. However, other than the interest showed by Repsol and Lagniappe there was light bidding in the sale. Hilcorp’s Beaufort Sea tract that was acquired is near the Liberty, an offshore project in adjacent federal waters now in development planning.

NPR-A tracts offered Dec. 12

Another read on industry interest in the slope comes Dec. 12 when the U.S. Bureau of Land Management holds its annual areawide sale in the National Petroleum Reserve-Alaska. Two hundred and fifty four tracts and 2.85 million acres will be offered. A large prospective area inland from the coast is still off-limits but BLM has an effort underway to redo the land management plan for the reserve and to open some of these areas in the future.

Alaska’s oil production dips

Alaska production has been declining this year but is expected to increase in 2019 and 2020 thanks to new North Slope oil discoveries being brought on line, the state Department of Revenue said in its fall revenue forecast issued Dec. 3. The Department of Natural Resources participates in the preparation of the oil production part of the forecast. North Slope production has dropped this year, averaging 505,184 barrels per day for January through October, or 17,402 barrels per day below the same period in 2017. However, the daily average is projected to be up to 529,800 barrels per day in 2019 and 533,000 barrels per day in 2020 due to new production from ConocoPhillips’ GMT-1 and Hilcorp Energy’s Moose Pad project.

GMT-2, Willow, Pikka and other pending new project are expected to be producing after 2021 (GMT-2); and in 2023 (Willow and Pikka). This year only GMT-1 in the National Petroleum Reserve-Alaska Hilcorp’s Moose Pad, which is to begin production in January, are in the near-term production forecast. *If Willow and Pikka are approved and proceed to development the production contribution will be substantial, estimated at 220,000 barrels per day at peak between the two.*

Long term outlook is stable

The long-term expectation, according to the forecast, is for production to remain at about 500,000 barrels per day over the next decade. Essentially, new discoveries on the slope are expected to offset declines in the older, larger fields. BP and ConocoPhillips, operators of the large “legacy” Prudhoe Bay and Kuparuk River fields on the slope, have worked hard to mitigate declining production largely with new technology. BP and ConocoPhillips held Prudhoe and Kuparuk production generally flat in the two years following sharp oil price declines in late 2015. *However, both fields are likely to show declines this year, former state Natural Resources Commissioner Andy Mack said he was told by senior managers at both companies.*

Fisheries:

Salmon decline linked to warming

2019 is expected to be another poor year for pink salmon in Southeast and Southcentral coastal areas and the Bristol Bay sockeye catch is predicted to be down, although 2017 and 2016 were both record-setting years. The Southeast pink harvest is pegged at 18 million fish, or half the 10-year average of 36 million, according to the state Department of Fish and Game's annual forecast for the upcoming season. State biologists say warm waters in the Gulf of Alaska, likely linked to climate change, appear to be a decisive factor. From 2013 to 2016 an accumulation of warm water, the "blob," was detected and fisheries managers connect that with poor salmon harvests. The blob dissipated in 2017 but has now returned.

Salmon pays \$596 million in 2018

Despite a lower salmon harvest in 2018, at 114 million fish, harvesters pocketed \$596 million this year, Fisheries writer Laine Welch reported in her column. About 44 percent of salmon caught were sockeyes but those supplied 60 percent of the income to harvesters. Bristol Bay harvesters earned \$281 million of the statewide \$596 million, but the Bristol Bay payments are expected to reach \$335 million after post-season adjusted payments are made.

Sportsfish exceeds halibut limits

Alaska commercial fishermen stayed within halibut harvest guidelines this year but sports charter operators did not, data compiled by the Pacific Halibut Commission showed. In the central Gulf of Alaska charter vessels exceeded their 1.8-million-pound limit and caught 1.85 million pounds, or 103 percent of quota. The commercial fishing sector stayed within its guidelines, however.

Halibut biomass survey is due

Halibut biomass in the North Pacific, from Oregon to the Bering Sea, has been trending down for years and to reduce fishing pressure the international

Halibut supply, prices (Cont.)

commission has reduced the allowable catch by 16 percent between 2017 and 2018. The perception of falling supply from the Pacific has caused competitors to ramp up, particularly Atlantic halibut. Thus, despite lower supply prices are declining, with the 2018 halibut season opening at \$5.74 per pound compared with a \$6.53 per pound opening price in 2017. Halibut quotas for both sport and commercial fisheries will be set in January after regulators survey the latest information on biomass.

Minerals:

Walker okays Ambler Road funds

In the closing days of his term Gov. Bill Walker approved \$3.6 million in state funds to complete federal regulatory work on the Ambler Mining District Access Project, a 211-mile industrial road that would support copper and zinc projects in the western Brooks Range. Trilogy Metals and its partner, South 32 Ltd., an Australian company, are planning development of Arctic, a high-grade deposit, and are in advanced exploration of Bornite, a large copper deposit in the upper Kobuk River area about 20 miles west of Arctic. The road would be built by the Alaska Industrial Development and Export Authority from the existing Dalton Highway.

Trilogy plans a 10,000-tonne-per-day surface mine at Arctic with work on permits underway in 2019. Thirty six million tons of mainly copper and zinc resources are indicated by drilling at Arctic, with another 3.5 million tonnes inferred, according to a late 2017 estimate. (A tonne is 2,200 lbs). At Bornite, still being explored, a copper-zinc resource of 40.5 million tonnes is indicated and 84.1 million tonnes are inferred by drilling in a deposit near surface, with an additional 57.5 million tonnes inferred in a deeper deposit. *Recent drilling at Bornite has also shown presence of cobalt, with an inferred resource of 77 million pounds of cobalt announced in June.*

Business Intelligence - *continued*

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Federal land exchange facilitates private commercial dock in Kodiak

The U.S. Senate approved a land exchange near Kodiak. Privately-held land on Ayakulik Island would be placed in a conservation reserve in a swap for acreage in Women's Bay south of the city of Kodiak which could be expanded into a commercial dock. Jim Jansen, chairman of Lynden, Inc., owns the Ayakulik Island acreage being traded for the tidelands in Womens Bay. Kodiak city officials expressed concern about a new Lynden dock in Womens Bay competing with Kodiak's present city-owned docks.

Alaska Aerospace plans new support facilities at Kodiak launch complex

State-owned Alaska Aerospace Corp. is soliciting bids for materials and delivery for a 4,000-square-foot support building at AAC's launch complex on Kodiak Island. The building will provide shelter for launch customers for rocket and payload assembly. AEC is working with six potential customers and expects three to six launches next year for commercial customers as well as additional launches for government agencies. AAC is targeting a fast-developing niche of customers launching small rockets and satellite payloads.

Coastal Villages CDQ group builds prototype small house for rural home model

Coastal Villages Region Fund, a Community Enterprise Development Quota nonprofit, is developing a model "small" house project in Eek, a southwest Alaska village, as an affordable housing alternative. The unit was constructed by local labor with energy-efficient polyurethane foam core structural panels. Units will be big enough for a single person or a couple and would be built for modular expansion to house a family. The plan is for grant funding to cover 60 percent of the home cost with 40 percent the homeowner's responsibility. The price to the buyer would be \$75,000 financed at a low interest rate so that monthly payments could be as low as \$200. The Native Village of Eek, City of Eek and AVCP, the regional nonprofit, participated in the project.

Military procurement conference in Fairbanks draws contractors, suppliers

Military procurement officials are holding workshops for contractors on construction planned at Interior military installations, particularly at Eielson Air Force Base where two new interceptor squadrons will be based. An environmental remediation project is planned at Fort Wainwright; new missile interceptors will be installed at the missile defense facility at Fort Greely, and work on new long-range radar is continuing at Clear Air Force Station.

New test of methane hydrates on the North Slope

BP is to begin drilling another methane hydrates test well in the Prudhoe Bay field on the North Slope in December on a project, funded by the U.S. Dept. of Energy and Japanese research agencies, that would test methane production from a hydrate over a period of several months. The drilling is to begin in December and be completed in January.

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Email: timbradner@pobox.alaska.net