

# Alaska Economic Report

*Tracking resource, business, industry  
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## **New oil production on North Slope**

### ***Hilcorp starts production at its new “Moose Pad” project***

Hilcorp Energy has started production at its new Moose Pad viscous oil project in the Milne Point field on the North Slope, the company said. Milne Point is owned 50-50 by Hilcorp and BP, but is operated by Hilcorp. “Production at Moose Pad came online in early April at an initial rate of 3,000 barrels per day flowing from two wells. Drilling and facility construction activities are ongoing. The facilities will make it possible to bring on additional production from our planned total of more than twenty-five producing wells,” Lori Nelson, a Hilcorp spokesperson, said in an email. Peak production is anticipated to be approximately 22,000 barrels per day. Hilcorp will invest over \$400 million to build and develop Moose Pad and its facilities.

The company is planning for growth, however. David Wilkins, Hilcorp’s senior vice president for Alaska, told an industry conference in Anchorage last November that an oil processing plant built on the 14-acre Moose Pad is capable of handling 85,000 b/d of fluids, and the pad itself is designed to accommodate up to 50 wells. Moose Pad is at the western edge of the Milne Point field near the Kuparuk River field boundary. The 14-acre pad is the first new production pad built in Milne Point since 2002.

## **State’s economy tips up; let’s not mess it up**

Northrim Bank held its annual briefings for its customers and community and business leaders in Anchorage, Fairbanks and Juneau this week. The core message is that the state’s economy is beginning to tip up after more than three years of recession, so let’s not mess it up. Joe Schierhorn, Northrim’s gentlemanly CEO, didn’t quite put it that bluntly, but that was his point. Basically, Northrim is optimistic about oil work on the slope picking up and the bank itself has weathered the recession well. Northrim’s commercial loans were up 3 percent last year, Schierhorn said in a briefing, although that was more due to business moves by the bank to gain market share than any real increase in commercial activity. The bank is worried about the effects of large state budget reductions being imposed in one year, as proposed by Gov. Mike Dunleavy, but Northrim hasn’t yet seen projects delayed except in health care. Overall, however, there is caution in the business community, Schierhorn told us. That will dampen investment until the situation with the state budget becomes clear.

**Page 3: More from Northrim’s annual economics briefing**

## **Energy:**

### **IGU cuts out of Siemens deal**

The Fairbanks-based Interior Gas Utility terminated negotiations with Siemens on a deal to build a small modular liquefied natural gas plant near Willow to supply LNG to the Fairbanks gas utility. Negotiations have been confidential and it is not known what caused the breakdown but IGU board members had been skeptical of Siemens' claim that it could supply LNG to Fairbanks with a gas feedstock price of \$5 per thousand cubic feet, or mcf. IGU now buys gas from Hilcorp Energy for its existing small LNG plant near Point Mackenzie for \$7.72 per mcf, and since Hilcorp is the major gas supplier in the region there was no reason to believe it would lower its price to \$5. There is potential for gas in northern parts of the Mat-Su Borough, but no discoveries have yet been made.

*IGU will now proceed with plans to build a new, larger LNG plant at Point MacKenzie. The utility has approved funds for engineering for the facility, which is estimated at \$50 million.*

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### **Petersburg hydro upgrade**

Petersburg officials were told that \$7.3 million for upgrades will be needed, over a period of years, to keep the Blind Slough Hydroelectric Project operational through to the end of its license period in 2034. The plant was built in 1924, upgraded in 1955, and today supplies 25 percent of local power needs. The remaining power needed by Petersburg comes from the South East Alaska Power Agency, or SEAPA, which operates the larger Lake Tyee hydro project. Blind Slough provides power at 1.2 cents per kilowatt hour while SEAPA power is provided for 6.8 cents per kilowatt hour.

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### **Petersburg hydro upgrade (Cont.)**

The biggest item in the Blind Slough project list is a powerhouse refurbishment estimated at \$5.3 million. McMillan Jacobs Associates, a national engineering consulting firm, performed the condition assessment of the older hydro plant. The company was also involved in the expansion of Sitka's Blue Lake hydro project.

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### **UAF coal power plant**

University of Alaska Fairbanks officials hope to have UAF's new combined coal-fired power and steam plant operational by mid-May. The completion is six months late from the original goal of having the plant operating by last November. Some good news is that the plant is within its \$284 million budget, UAF officials said. Testing procedures for equipment took longer than expected.

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### **Chugach, ML&P deal proceeds**

Chugach Electric Association is moving through the state regulatory procedures in its acquisition of Anchorage's city-owned Municipal Light & Power utility, and expects to have approvals for the deal to close by February 2020. On April 1 Chugach filed an application with the Regulatory Commission of Alaska to expand its service territory to include areas now served by ML&P. The acquisition will cost Chugach about \$1 billion but the deal will save Chugach customers about \$200 million a year, mostly through efficiencies of merging the two utilities.

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*Seafood employers are recruiting for summer jobs in processing plants. About 4,000 full-time temporary workers are needed. Fourteen companies are working through the state Department of Labor.*

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## Economic data from Northrim presentations

Here are the economic indicators for Alaska presented by Mark Edwards, Northrim Bank vice president and chief economist, at the bank's economic forum luncheons. The data indicates an economy that is leveling out and poised for growth. However, proposed large state budget cuts could extend or even deepen the recession, said Mouhcine Guettabi, economist at the University of Alaska's Institute of Social and Economic Research, who also presented at the Northrim forum.

Here are key points:

*From Mark Edwards:*

**Macro indicators:** Employment was up 0.1 percent in February after three years of declines; oil and construction, both high-wage industries, are leading the rebound. Per-capita income rose 4.4 percent in 2018, and at \$59,687 was 10th best among the states and 11 percent above the national average. Average home sale prices gained 2.3 percent in Anchorage in 2018. However, the state experienced a 0.2 percent population decline, or 1,608 people. Inflation was up in 2018 at 3 percent after being at 0.6 percent over the last three years.

**Mortgage delinquencies:** Mortgage loan delinquencies on one-to-four unit residential loans averaged 2.92 percent in 2018, down from 3.37 percent in 2018 and actually lower than the per-recession 2014 rate of 2.95 percent. The Alaska rates compare favorably with the U.S. 2018 average delinquency rate of 4.32 percent.

**Foreclosures:** Home foreclosures averaged 0.66 percent of total loans in 2018, comparing favorably with the 0.95 percent national rate for 2018. The Alaska 2018 rate was also below the Alaska pre-recession 2014 foreclosure rate of .8 percent of loans.

**Building permits:** Total Alaska building permits totaled 1,698 in 2018, surpassing the 2014 level before the recession and almost double the 868 permits issued in 2011.

*From Mouhcine Guettabi:*

- After 39 consecutive months of recession, the state has lost 11,300 jobs.
- The state FY 2020 deficit is projected at \$1.62 billion, but this assumes a \$3,000 Permanent Fund Dividend. If the \$1.944 billion for the PFD were not paid, the state budget would be in surplus.
- The loss of jobs in the economy due to the budget cuts of state, local and federal funds would result in 16,924 jobs, ISER estimates. The positive effect of a \$3,000 PFD is difficult to calculate (there is little data) but ISER estimates there could be gains of 696, although most of these would be in temporary retail.

# Business Intelligence

## A growing industry? Farms up 30 percent between 2012 and 2017

The number of farming operations in Alaska is increasing, and a good part of the growth is in smaller greenhouse operations supporting bedding plants and flowers as well as vegetables along with the non-profit hatcheries and mariculture operations like oyster farms that are mostly family-owned. Mariculture and hatcheries are included with conventional farms in U.S. Department of Agriculture data. According to the latest USDA farm census for Alaska the number of farms operating in Alaska increased from 762 in 2012 to 990 in 2017, a 29.9 percent growth. Growth occurred across the traditional farming areas, with farms in Southcentral Alaska, which includes Mat-Su, increasing from 291 in 2012 to 350 in 2017; Interior Alaska, increasing from 217 in 2012 to 274 in 2017, and the Kenai Peninsula, increasing from 162 to 260 over the same period. USDA considers any place that produces \$1,000 or more of agricultural products for sale during a year.

*Supporters of agriculture are using the new data to show officials in Gov. Mike Dunleavy's administration that farming, though small, is viable and growing and adding to private sector activity. State budget officials have attempted to cut programs that support farming. Legislators are pushing back.*

**INFLUENTIAL ANCHORAGE BUSINESS GROUP FOCUSES ON FOOD SUPPLY:** In a related development, Commonwealth North, the Anchorage-based business group that works on public policy, has formed a task force to work on “food security” issues, which includes promotion of agriculture and its related infrastructure in the state. This is significant because it will focus the attention of leaders of the group, which include Anchorage’s business elite, on supporting agriculture and locally-grown food.

**BRISTOL BAY SUBSIDIARY EXPANDS IN WESTERN ALASKA FUEL SUPPLY:** Bristol Alliance Fuels, a subsidiary of Bristol Bay Industrial and Bristol Bay Native Corp., has assumed management of Delta Western’s fueling operations in Dillingham and Naknek effective April 16. This is a lease/operation agreement with Delta Western still owning the facilities and being the exclusive provider of fuels for Bristol Alliance Fuels. Bristol Bay Industrial is a major provider of industrial and oilfield services in Alaska. Delta Western is a member of the Saltchuk family of companies that operate in Alaska.

**FAIRBANKS WILL RAISE TAXES DUE TO GOVERNOR’S CUTS:** Fairbanks North Star Borough officials are proposing a property tax hike of 1.6 mills to cover additional debt service on school bonds, assuming that Gov. Mike Dunleavy’s proposed cutoff of state school bond support is approved by the Legislature. The state House, however, approved a 50 percent reduction, half of what Dunleavy proposes. The state Senate has yet to make its recommendation. House and Senate budget differences will be resolved in a conference committee but the governor is still expected to cut using his veto. Many municipalities are making plans assuming the governor’s cuts will prevail. The tax hike could cover a projected \$9 million shortfall from reduced state funds but officials also want to put \$10 million into a facilities maintenance fund, which now has about \$10 million.

SOME ANCHORAGE BUSINESSES STILL SHUTTERED DUE TO EARTHQUAKE: Some Anchorage businesses including the Westmark Hotel in downtown Anchorage are still closed or with operations curtailed due to damage from the Nov. 30 earthquake, Anchorage Daily News reporter Annie Zak reported. Local TV station KTVA had to temporarily relocate from its building in east Anchorage while the building undergoes extensive repairs. About 60 Anchorage commercial buildings are still restricted for occupancy, municipal officials report.

PERMANENT FUND EDUCATION RAFFLE RAISES ALMOST \$1 MILLION FOR SCHOOLS:

Alaska's new Permanent Fund education raffle is off to a great start, with \$976,400 pledged in this first year of the program. Half of the money will go to support the state's K-12 school funding and a quarter to a new education endowment. The rest goes to a fund to pay for raffle prizes. Sen. Click Bishop, R-Fairbanks, sponsored the bill creating the raffle, under which Alaskans can use their annual Permanent Fund Dividend to buy raffle tickets. The first raffle drawing, for prizes, is set for January 2020.

MAJOR CRUISE OPERATOR CARNIVAL IN TROUBLE OVER SHIP POLLUTION:

Carnival Corp., a major owner of cruise ships operating in Alaska, is in trouble with U.S. courts over alleged violations of environmental rules and terms of a probation agreement. Violations cited include the dumping of 26,000 gallons of "gray" water, which is partly treated, into waters in Glacier Bay National Park in Sept. 2018. The company paid a fine to the state of Alaska. U.S. District Judge Patricia Seitz, in Miami, is considering whether to ban the company from U.S. ports because of continued violations, which may affect Carnival's operations in Alaska.

- Continued on page 8

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## **Petroleum:**

### **New oil found near TAPS line**

London-based independent Pantheon Resources is in development planning for a small oil discovery in the central North Slope south of the large Prudhoe Bay field. Pantheon drilled a new well off the Alkaid 1 well drilled in 2015 and achieved a test flow rate 80 barrels per day to 100 barrels per day of high quality light 40-degree API oil from a six-foot well section. Pantheon believes the discovery can be commercially developed with horizontal wells and stimulation. Unlike many oil discoveries on the slope that are remote, requiring expensive infrastructure, Alkaid is adjacent to the Dalton Highway and the Trans Alaska Pipeline System.

“The flow rate indicates the potential of higher rates when conventional North Slope production techniques like horizontal wells and stimulation is applied to larger intervals of reservoir,” Pantheon said in a statement. The test was conducted in a 240-foot interval of oil-saturated reservoir. The new find has also upgraded the potential of an adjacent oil accumulation which can be developed from the Alkaid location.

Alkaid was originally drilled by Alaska-based independent Great Bear Petroleum. Pantheon acquired Great Bear in January. At the time Great Bear was pursuing deeper prospects for shale oil production from large shale formations that are known source rocks for the large producing oil fields farther north, including Prudhoe Bay. Great Bear drilled two shale tests including Alkaid but failed to find sufficient oil in the shale for commercial development.

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### **BP income \$916 million**

BP reported \$916 million in oil production net income from Alaska in 2018 based on total production revenues of \$4.3 billion. On comparison,

### **BP’s income is up (Cont.)**

net income in 2017 was \$830 million on \$3.3 billion in sales revenues. BP officials in Alaska credited higher oil prices with the increase in revenue and net income. The company paid \$804 million in production and property taxes and royalties to the state in 2018. BP said the production revenues and net income do not reflect the company’s overall Alaska financial situation. When income and costs for “midstream” infrastructure are included, mainly BP’s holdings in the Trans Alaska Pipeline System and its marine tanker transportation system, the 2018 profit drops to \$531 million. That’s mainly because margins on the pipeline and tankers are lower than those for oil production.

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### **Slope production still lower**

Alaska oil production is still 25,000 barrels a day below last year’s volumes for the first two months of the year but oil prices were trending up, according to data gathered by the University of Alaska’s Institute of Social and Economic Research. Production data shows a 4.7 percent decline for January and February compared with the same two months of 2018. Alaska North Slope crude oil prices, however, averaged \$67.21 per barrel between Jan. 1 and March 12 compared with an average of \$63.35 per barrel for the same period of 2018.

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### **Bernhardt new DOI Secretary**

The U.S. Senate confirmed David Bernhardt as Secretary of the Interior. Bernhardt had been Deputy Secretary until Ryan Zinke’s resignation as Secretary. Bernhardt’s elevation may mean that Joe Balash, an Alaskan who is now Assistant Secretary for Lands and Minerals, may be moving up. Balash, with Bernhardt’s backing, is managing the department’s effort to get lease sales underway in the Arctic National Wildlife Refuge coastal plain. Hopes have been for a sale late this year.

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## **Transportation:**

### **State to sell two of its ferries**

The state will sell two of its “fast” ferry vessels, the *Fairweather* and *Chenega*, officials at the Department of Transportation and Public Facilities said. The *Fairweather* is to be laid up at Ward Cove, in Ketchikan. Its crew is being reassigned to other vessels where there are vacancies, so the action will not result in layoffs, for now at least. Completion of the new ferry *Tazlina*, which will operate in northern Lynn Canal in Southeast, makes the *Fairweather* no longer needed. The *Tazlina* is slower but it will carry more vehicles.

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## **Minerals:**

### **Pebble’s downsized mine**

Anchorage’s Dena’ina Center was packed last week during the U.S. Army’s Corps of Engineers hearing on the Pebble Mine Draft Environmental Impact Statement. While the opposition to the mine from fisheries and tribal groups are well documented, the details of Pebble’s scaled-down project are less known. A smaller mine, which is proposed in the applications to the Corps, covers a much smaller “footprint,” Pebble said. The plan eliminates the large-scale use of cyanide and makes major changes in the “tailings,” or waste rock, storage.

One change that is important is that the mine facilities have been relocated outside the Upper Talarik Creek watershed, from where waters flow to Lake Iliamna and eventually Bristol Bay. However, they are still in another watershed supporting the Koktuli River, which flows into the Mulchatna River to the Nushagak River and then to Bristol Bay. The concern is that any contamination to these watersheds could affect salmon spawning streams. At the mine itself there would be a large bulk-tailings facility holding 85 percent of the waste rock which will be basically inert.

### **Pebble’s downsized mine (Cont.)**

A smaller facility would hold a quantity of “pyritic” tailings that have the potential for generation of acid drainage. The smaller pyritic tailings facility would be lined with an impermeable layer, following advanced industry practice, to prevent seepage. When the mine is decommissioned these will be moved to the main mine pit and be covered by water, which will prevent contact with air and the formation of acidic fluid.

The large bulk tailings facility, meanwhile, will incorporate a “flow-through” design to allow water to flow through the dam structure to a storage area. This would prevent a buildup of water above the dam, which would create pressure as water accumulated. This design concept was not used in tailings dams that have failed, such as the Mount Polley dam failure in British Columbia, and recent dam failures in Brazil. At mine closure the inert rock in the large bulk storage area will be covered with a liner and layer of soil, which would allow vegetation to grow,

A unique aspect to the Pebble design is a system to control the release of water at optimal times for the support of fish habitat. If Pebble is developed it will have major benefits to the state’s economy as well as small communities near the mine and the Lake and Peninsula Borough. The mine would pay an estimated \$20 million a year in taxes to the borough and \$66 million a year in taxes and royalties to the state.

*If it goes ahead Pebble would employ about 2,000 in construction and about 850 in production jobs. Mining jobs pay well, averaging about \$100,000 a year. That’s \$85 million a year in annual payroll. When indirect employments effects are added the total jobs created will be about 2,000.*

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

- *Continued from page 5*

**ANCHORAGE LAND PRICES STILL HIGH FOR INDUSTRIAL SPACE DEVELOPMENT:** Prices for industrial land in the Anchorage bowl area are averaging between \$12 and \$20 per square foot, while construction costs for a typical warehouse ranges between 85 cents and \$1.25 per square foot, writes Brandon Spoerhase, broker for BSI Commercial Real Estate, in an Anchorage Daily News column. The new construction lease rate averages about \$1.35 per square foot, which results in a loss under a conventional investor scenario. However, most industrial developers are owner-users who will not look at the project as a conventional real estate deal, so site and building costs are built into a company's overall finances. Still, the lack of available industrial land in Anchorage is causing developers to look more at Eagle River and the Mat-Su region where land costs are lower, Spoerhase wrote.

**ALASKANS CARRY MORE DEBT, BUT FEWER EDUCATIONAL LOANS:** Alaskans carry more debt than the average American, according to the First Reserve Bank of New York. As of the fourth quarter of 2018 Alaskans' total debt per capita was \$58,550 compared with \$50,000 per capita for the U.S. as a whole. It was only in average student debt that Alaskans were lower, at \$4,030 per capita average compared with \$5,390 average for the U.S. The statistic is telling in that it indicates that Alaskans on average are below the nation in pursuing post-secondary education and training, which fits with information gathered by the University of Alaska. The data is in a report from the University of Alaska's Institute of Social and Economic Research published in a First National Bank Alaska's quarterly newsletter.

**PFD PLEDGES TO CHARITIES REACH \$2.9 MILLION THIS YEAR:** Alaskans' pledges to charities this year through the "Pick, Click, Give" feature on the Permanent Fund Dividend application were \$2.9 million as of the March 31 PFD application deadline. That's up from \$2.5 million in 2018 and \$2.7 million in 2017. The high years for "Pick, Click and Give" were 2015 and 2016 with amounts raised being \$3.3 million in 2015 and \$3.1 million in 2016. The average pledge per donor in 2019 was \$113.88. The program channels donations to 628 participating nonprofits in areas like youth and education; emergency services; humanitarian efforts; animals; arts and culture. and health and community organizations.

*The total for 2019 may increase because PFD applicants actually have until August 31 to add to their donations, even though March 31 is the deadline for the application. Given the state budget uncertainties this year nonprofits are likely marketing to get people to increase their contributions. In the past there has not been any significant increases in donated amounts between March 31 and August 31 but this year may be different. The big question for 2019 is how big the PFD will be, of course. Gov. Mike Dunleavy is pushing for a \$3,000 PFD but legislators think the amount should be lower so that there will be more money available for state programs, and budgets won't have to be cut as drastically.*

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