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New progress for big Donlin Gold project

Companies commit to new work, \$322 million bond

Donlin Gold has been given approval by its board to proceed with new geotechnical drilling to support a dam safety permit from the state of Alaska. The work involves 85 new drill holes to be done over several months. The authorization, which involves several million dollars, is important because it is a sign of confidence in the project by owners Barrick Gold and NovaGold Resources, who are 50-50 partners. In a related development, the companies have committed to financial assurances through a \$322 million bond to cover closure costs and long-term water management and treatment.

Donlin Gold will be a very large surface gold mine with capital investments estimated at \$6 billion-plus, and there have been questions about the willingness of Barrick, the larger partner, to

proceed with the project given high costs and the remote location, and financial stress the company has been under. Barrick is one of the world's largest gold mining companies. Although a 50 percent owner, NovaGold is a small Canada-based "junior" mining company. Barrick has the deeper pockets. The financial assurance bond is required for approval of Donlin Gold's Reclamation Plan by the state Dept. of Natural Resources. Meanwhile, the state Dept. of Environmental Conservation has issued a Waste Management Permit for the project. This details how solid, liquid and hazardous waste from the project will be handled. Both authorizations came on Jan. 19.

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Dunleavy dividends: \$2.4 billion yearly to economy?

If Gov. Mike Dunleavy's plan to "fully-fund" Permanent Fund dividends and to pay three years "underfunded" dividends is approved by the Legislature, the amount of dividends paid each year would total at least \$2.4 billion yearly for three years. That compares to the roughly \$1 billion-\$1.2 billion paid out over the last three years. The future estimate assumes 600,000 Alaskans apply for and qualify for a dividend. Part of the payout, 20 percent to 25

percent, would be paid to the federal government in tax, and how much of the remainder would be actually spent in the Alaska economy is unknown. No good studies of the economic impact of PFDs exist but there is evidence that the effects are modest. Assuming the 2019 dividend at \$3,000 (likely low), a PFD check of \$4,061 would be issued later this year; a check of \$4,289 in late 2020 and a check of \$4,328 in 2021.

(More analysis in our next issue)

Transportation:

New Arctic port, route study

The U.S. Coast Guard will do a route and port access study along the Arctic coast, from the Canada border to the Seward Peninsula. This would be the first detailed assessment of potential vessel traffic and port needs to support navigation. The study was announced in the Federal Register on Dec. 21. It will take four years to complete.

Bypass mail test program is off

Postal officials cancelled a one-year pilot program that would have moved "Bypass" mail to certain rural communities on the North Slope by overland winter road or barge during summer. The program was experimental, to test potential cost savings compared with the current reliance on air delivery. Bypass mail delivers a substantial amount of consumer goods to rural Alaska but the Postal Service has been under pressure in Congress to reduce its costs. Northern Air Cargo now delivers bypass mail on the North Slope. The experimental surface delivery would have been by Lynden Transport Inc.

New ferry in service in May

Alaska's new state ferry, the MV Tazlina, will start service in northern Southeast Alaska in May. The vessel will operate in Lynn Canal to connect Juneau, Haines and Skagway. The Tazlina will carry up to 300 passengers and 53 vehicles, an increase over the capacity of the ferry MV Fairweather, which it will replace on the route. The Fairweather can carry 210 passengers and 31 vehicles. Meanwhile, the state Dept. of Transportation and Public Facilities has dropped plans to install crew quarters on two new ferries the Tazlina and MV Hubbard, which would have allowed them to operate on longer routes. Crew quarters additions would have cost \$30 million. However, new side-loading doors will be added to both ships to allow service to small communities with limited facilities.

Infrastructure:

Money to complete Nenana bridge

The U.S. Department of Transportation approved a \$9.1 million grant to the Nenana Native Association to complete a partly-built bridge across the Nenana River. This is strategic infrastructure because it opens up access to potential agricultural lands and areas with oil and gas potential west of the river. Nenana is 60 miles southwest of Fairbanks on the Parks Highway. The grant is through the 2018 federal Better Utilizing Investments to Leverage Development program, which works to aid infrastructure development. The project actually involves two bridges, one over the Nenana River itself and the other over Nenana Slough. Access to 900,000 acres of agricultural, forest and oil and gas lands would have better access. Doyon Ltd., the Fairbanks Native regional development corporation, has also been exploring for oil and gas in the area. The city of Nenana received \$9.5 million in mostly-state grants in 2012 that allowed the bridge to be partly built, but project delays and the collapse of state revenues put the project on the shelf until now.

Mat-Su's rail project still pending

Another project that may land a federal infrastructure grant this year is the 30-mile rail extension from existing Alaska Railroad tracks at Houston to the Matanuska-Susitna Borough's Port MacKenzie, on Knik Arm of upper Cook Inlet. The extension is about half completed overall with the berm for tracks built along most of the route a siding with rails built for the connection at Houston. The cost of completion is estimated at \$125 million but the borough, working with a development company and its consultants, AECOM and HDR, believe costs could be reduced to \$85 million through modifications of the project. If built, the extension would shorten the route for commodities such as coal or bulk mineral ores would have to be shipped to an export port compared with the shipping distance to Seward, now the commodities export port used by shippers.

Governor wants producers back in Alaska LNG Project

Gov. Mike Dunleavy has initiated a “full project review” of Alaska LNG, the state-led major gas project, a spokesman for the Alaska Gasline Development Corp. told us. “We will complete the Alaska LNG project permitting process with the Federal Energy Regulatory Commission (FERC), continue commercial negotiations with potential customers, and seek private sector partners to help advance the project and share in the risk,” AGDC said in an email.

Meanwhile, sources reported that talks are underway between the state administration and North Slope producers about becoming part of the project again. Three North Slope producers, BP, ConocoPhillips and Exxon Mobil, were partners with AGDC in doing preliminary engineering and regulatory work until the companies withdrew in 2015, citing low energy prices and sub-optimal returns expected from investments in the \$43 billion gas project. Former Gov. Bill Walker decided to continue with Alaska LNG mainly on regulatory work and marketing. Despite the 2015 decision to withdraw as partners, all three producers voiced continued support for the project. An initiative previously planned for an equity investment solicitation led by Goldman Sachs is meanwhile on hold, AGDC said.

Dunleavy’s desire to reengage with the three major slope producers first came to light last week in a presentation by new revenue commissioner Bruce Tangeman to the Senate Finance Committee. The governor had always been uncomfortable with the state leading the huge project, mainly because of the risks. “The risk is significant, and we’re not comfortable in shouldering that,” Tangeman told the senators Jan. 23. Dunleavy also did a shakeup recently at the state corporation, replacing some board members and terminating AGDC’s former CEO, Keith Meyer.

Slope producers BP, ConocoPhillips and ExxonMobil were previously part of a four-party consortium that included the state gas corporation. The group completed a \$600 million Preliminary Front-End Engineering and Design for Alaska LNG but in 2016 the producers pulled away. “It wasn’t that the companies weren’t interested but at the time they wanted to slow the project and reduce cash calls,” since low oil prices were eating into available cash for the companies, Tangeman told the Senate committee. As a partner in a four-party consortium the state had the option to continue work with the AGDC as owner and manager, with efforts focusing mainly on securing federal regulatory approvals and marketing. To stop working, much of the investment in a federal Environmental Impact Statement for a FERC operating certificate would have been lost.

Legislature convenes in Juneau, but House still not organized

The state Legislature convened on Jan. 15 on schedule but the body is only partly functional because the state House is mired in a 20-20 stalemate between Republicans and 16 Democrats aligned with two Republicans and an independent, and one Republican refusing so far to join either faction. Without one group or the other having 21 votes, or ideally more to assure a margin of control, the House cannot elect a Speaker and do ordinary legislative business. The Senate is organized and is holding committee meetings. Lawmakers are awaiting Gov. Mike Dunleavy’s amended Fiscal Year 2020 budget due on Feb. 13. The governor is reported to be planning significant spending reductions.

Business Intelligence

Anchorage feels sticker shock with new \$2 billion port repair cost

Anchorage officials are feeling sticker shock over the estimated doubling of repair costs at the Port of Alaska, from about \$1 billion to \$2 billion. The new figure is an extrapolation of a revised, more detailed, estimate of a phase one of the project, which increased from \$124 million to \$223 million. Phase one is a new petroleum and cement terminal. Higher phase one costs, when analyzed, were then applied to the entire project. One factor behind the increase is higher dredge costs, which city officials had been told originally could be funded by the U.S. Army Corps of Engineers. That's now turned out to be not the case. Another factor is climate change. Engineers now say higher dock platforms are needed because of anticipated sea level rise over the next 75 years.

The port is in poor shape from corrosion and other problems, and there a possibility of structural failure, particularly in the event of an earthquake a little stronger than that of Nov. 30. The bulk of consumer goods for Southcentral, Interior and northern Alaska come through the port and an emergency alternative, in case of failure, is a combination of using Seward and Whittier ports and barges along with more trucking and air cargo. It would be expensive. There is no source of funds for the higher repair costs and city officials may consider revenue bonds, which would be paid for by port users, and ultimately consumers.

Anchorage sets April vote on alcohol tax hike

Anchorage's assembly voted 10-1 to put a 5 percent alcohol tax increase on the municipal ballot in April, which would raise \$13 million in new revenues. Mayor Ethan Berkowitz is pushing the tax to help the municipality deal with homelessness, much of it related to alcohol, and to fund treatment programs. The Alaska Cabaret, Hotel, Restaurant and Retailers Association is opposing the increase, saying it unfairly burdens businesses and responsible drinkers. The tax could raise an \$8 six-pack of beer to \$8.40.

Engineers: Tall buildings withstood quake better

Engineers analyzing data from the Nov. 30 earthquake determined that shorter buildings generally experienced more severe shaking than taller buildings partly due to the higher frequency of seismic waves from the quake epicenter about 7 miles from Anchorage. Taller buildings had more structural "give," and experienced shaking that was less intense, in general. Data was obtained from 22 sensors in different buildings around the city. The type of soil beneath the structure was also a factor. The information will be used to refine building standards.

Governor's request for federal disaster assistance likely to total \$100 million

Gov. Mike Dunleavy asked the federal government for \$58.7 million in disaster-relief funds related to damage from the Nov. 30 earthquake, but he said additional requests that will come as more information is available could bring the total to \$100 million. The damage is mostly to homes, much of it in the Eagle River-Chugiak area of north Anchorage, but there was also damage to larger buildings including schools. The Matanuska-Susitna Borough considered itself lucky to have a \$25 million earthquake insurance policy. Additional assistance will come from the federal government. Four schools in the Mat-Su were heavily damaged with one that will need replacing. Three other schools suffered lighter damage.

Some in government-averse Chugiak now want residential building approvals

The Nov. 30 earthquake is prompting some Chugiak residents to call for Anchorage's stringent building standards to be applied in the community. Currently the area does not fall under the municipality's Building Safety Area requirements. The Chugiak Community Council passed a resolution asking for reviews of residential home plans by an engineer but it must go to the full Chugiak-Eagle River Community Advisory Board before going to Anchorage's assembly. Homes in the Chugiak Eagle River area suffered major damage from the 7.0 earthquake and many blame it on lack of municipal building standards. Fewer homes in Anchorage, where standards do apply, suffered heavy damage.

State will certify UAA teachers despite accreditation loss, but longer term outlook uncertain

State education officials said they will allow the University of Alaska Anchorage spring and summer education graduates to be recommended for teaching licenses despite UAA's unexpected loss of accreditation for its school of education. The loss is mainly attributed to a glitch in data analysis and is expected to be overcome eventually. The state decision allows graduates to be hired by Alaska school districts. However, it may take up to four years for the accreditation to be reestablished and it's uncertain whether the state board can continue certifying teachers for that long. An option is to enroll UAA students in the UA Southeast and UA Fairbanks education schools. Those two schools retain their accreditation.

Anchorage's water and sewer utility wants immediate rate increase

Anchorage Water and Wastewater Utility is requesting an immediate 8 percent increase, the first of several to be requested to increase revenues to cover costs. The utility has not requested rate hike in recent years but is now filing them to avoid a shortfall. The request is before the Regulatory Commission of Alaska.

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Petroleum:

Prudhoe output dips 10,000 b/d

Prudhoe Bay field production dipped in 2018 but overall North Slope production held generally stable, state officials told legislators in briefings. Total slope production averaged 501,569 barrels per day for the July-through-November period down slightly from 502,8995 barrels/day that had been forecast. For the previous 12 months of Fiscal Year 2018, production averaged 520,037 b/d, down from 527,912 b/d for the previous 12-month period of Fiscal Year 2017.

Prudhoe Bay experienced a 10,000 barrels/day reduction in 2018, averaging 270,000 barrels/day for the year. That's down from a 280,000 barrels/day average the field maintained the previous three years, from 2015 through 2017. BP is the operator at the Prudhoe field. Increases in other fields on the slope, such as the Kuparuk River field and the Alpine field, offset the Prudhoe decline so that overall slope output was stable. Production at the Kuparuk River and Alpine fields was stable, or even increased in the case of Alpine, because of new projects in those fields brought on line in 2017 and 2018.

State officials give BP credit in sustaining production by repairing wells, doing aggressive maintenance, and maximizing the efficiency of processing plants the field. The company held production steady for three years despite falling oil prices. The drop at Prudhoe appeared to result from the completion of short-term efficiency and well optimization work BP launched to maintain production as oil prices dropped in 2016. From this point on, the state said, BP will have to resume drilling of new production wells, which had been halted to sustain Prudhoe output. BP said new drilling is now underway in the field, with two drill rigs put back to work in December and January. Despite the lower production at Prudhoe BP still beat its target in 2018, which was in the low 260,000 barrels/day range.

Mustang field to start up in April

Brooks Range Petroleum plans to begin drilling at its small Mustang field this month and is set for initial production in April. It has been a long haul for Brooks Range, with Mustang under development for six years and the company experiencing financial setbacks due to nonpayment of state incentive tax credits owed and the 2015 drop in oil prices.

Two wells have been drilled at Mustang. A new 6,000-foot horizontal well will give the project three wells for initial production. Four more wells are planned later in 2019. Initial production is expected to be 2,000 barrels per day but a modular "Early Production Facility" will have capacity to handle up to 6,000 barrels per day. It will process oil until permanent facilities can be built. Peak production is expected to reach 11,000 barrels per day.

Mustang's proven reserves are estimated at 22 million barrels but that may grow as the field is developed. A key advantage is Mustang is only 1,100 feet from an existing pipeline.

Great Bear, partners, set to drill

Great Bear Petroleum and three Australian partners are preparing to drill the \$15 million Winx-1 exploration well near the Colville River five miles east of where Armstrong Oil and Gas made a major discovery in its Horseshoe well in 2017. The state Division of Oil and Gas gave final approval for the well. Ice road and pad construction were underway in January with drilling set to start in February. The well will be drilled to 12,000 feet from a location near the Horseshoe well drilled by Armstrong, which found oil in the Nanushuk formation at 5,000 feet. Great Bear's partners are 88 Energy, Otto Energy and Red Emperor Resources. Oil Search, of New Guinea, has since acquired Armstrong's holdings and hopes to develop the Horseshoe leases as part of its Pikka project.

Energy:

New co-gen, wind for Fairbanks?

Golden Valley Electric Association, Interior Alaska's power utility, is looking at a proposal from Eco Green Generation of Monument, CO, an independent power producer, to generate 55 megawatts of power for GVEA. EGG proposes to add 11 cogeneration units in the Fairbanks area, each unit producing five megawatts using liquefied natural gas or propane.

The units would be near large commercial buildings to allow waste heat to be used by the buildings. The proposal includes a 25-megawatt wind farm near Delta Junction and a 4.4-megawatt battery energy storage system. The 11 cogeneration units would employ reciprocating engines that can be throttled up and down quickly, taking up slack if the wind suddenly dies. The project involves Alaska Environmental Power of Delta which now provides GVEA with 2 megawatts of wind power. AEP would receive one third of the net revenue from the project. EGG could have the project online by November 30. GVEA is asked to respond by late February.

GVEA, Chugach test solar arrays

In a related project, GVEA has completed its new solar installation and is now in the startup phase. GVEA's project cost about \$1 million including \$225,000 in federal funds contributed toward the project. The project will produce sufficient power to power 71 homes, assuming average use of 660 kWh per month.

Chugach Electric Association, the utility for South-central Alaska, has also started tests with a small solar array completed in December. Data collected will show how effective solar can be year-around at a northern latitude. The site has three arrays, one fixed facing south and two others that track the sun. University of Alaska Fairbanks' Alaska Center for Power and Energy is assisting Chugach with a test protocol.

Minerals:

Pebble EIS now mid-February

The U.S. Army Corps of Engineers said the release date of the Draft Environmental Impact Statement for the big Pebble copper/gold/molybdenum mine was pushed back from late January to mid-February. The DEIS is an important federal regulatory step for Pebble.

Meanwhile, Pebble Partnership, the development company, has set out its best estimates for the number and types of operations jobs if Pebble is developed:

Estimated direct and contract jobs

Mine	290
Process plant	240
Support operations	60
Water treatment	32
Catering and camp	80
Power plant	24
Trucking	36
Ferry terminals	24
Ferry operations	12
Port operations	60
Lighter tug operation	12
Port side administration	20
Administration	<u>48</u>
Total	938

Sitka tribe sues on fishing rights

An Alaska Native tribe in Sitka filed a lawsuit against the state Department of Fish and Game and the state Board of Fisheries alleging the state's denial of priority subsistence fishing rights in the Sitka herring roe fishery. Sealaska Corp., the Central Council of Tlingit and Haida and other regional tribal groups are supporting the suit, which was filed by the Sitka Tribe of Alaska. The suit could be an important test case on Native subsistence over commercial uses in state fisheries.

Business Intelligence - *continued*

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DoD plans \$70 million upgrade at Shemya radar facility

The Department of Defense said it will spend \$70 million to upgrade the Cobra Dane missile defense radar installation on Shemya Island in the Aleutians, operated by the U.S. Air Force. The facility has long been in use to detect missile launches and, in recent years, objects in space, but many of its components are obsolete and need modernization. Cobra Dane's radar is coordinated with Clear Air Force station's long range missile defense systems. Cobra Dane has a 95-foot-wide array that faces Russia.

Economists: Robust Northwest economy creates population drain from Alaska

Alaska's population dropped 1,600 between July 2017 and July 2018, according to the latest population estimates by state demographers. The survey shows 7,577 people left the state and 5,969 moved to Alaska during the period, for a net loss of 1,600. The trend is not unusual when there is a vibrant regional economy in the Pacific Northwest and a slack economy in Alaska, which is experiencing its third year of mild recession. Anchorage showed a loss of 2,368, which was partly offset by a gain of 1,355 in the Matanuska-Susitna Borough, the state report said. The Fairbanks North Star Borough lost 734, but Fairbanks will see a big gain in population when new military personnel and families begin arriving later this year.

Nome cracks down on underreporting for local personal property tax

The City of Nome will conduct audits of a sample of personal and business property tax returns filed with the city. Until now the city has relied on an honor system to record personal property subject to local tax but now a contract auditor will be hired to analyze a sample of the returns. Personal property can include boats, snow machines and other vehicles but not autos. Household furniture and personal effects are exempt. Business property subject to tax includes operating equipment and supplies, computers and software but not inventory. The city's action stem from suggestions by state assessors. Personal and business property not properly valued could affect the state's full-value determination of local tax base, which affects state funds for local schools. The city will select a sample of tax return for audit in early February.

Southeast expects surge in new tourists with bigger cruise ships; port improvements needed

Southeast Alaska could see a surge in new cruise tourists in the next decade as more firms enter the Alaska market with bigger ships that carry more passengers, Ketchikan officials were told in a briefing Jan. 10. The projection is for cruise passengers arriving in Ketchikan to reach 1.5 million in 10 years, about a 50 percent increase. Alaska is one of the most profitable cruise destinations for the industry, analysts at Bermello, Ajami & Partners, a cruise tourism consulting firm, told the city of Ketchikan. The firm has also developed new concepts for passenger dock facilities to aid in unloading and loading passengers from the larger vessels. Ketchikan is already considering a plan for a \$75 million reconfiguration of its Berths 1 and 2 with floating docks. Skagway and other Southeast communities also have plans to accommodate the bigger ships.

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