RESOURCE REVIEW
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New North Slope prospects could be a game-changer

"Will our legislators raise state taxes on oil production again? If we overcome the technical and economic risks, will we still shoot ourselves in the foot? We've done it before. Hope we don't do it again." – Tim Bradner, Alaska reporter and columnist

Repsol and Denver-based Armstrong Energy confirmed in March the biggest conventional onshore oil discovery in America in 30 years after two wells drilled this winter revealed the companies have found at least 1.2 billion barrels of recoverable oil near the north edge of the National Petroleum Reserve-Alaska (NPR-A).

In 2014 and 2015, Armstrong made major discoveries in the Nanushuk formation of the Pikka Unit, a chunk of leases on state land north of Nuiqsut. The two wells drilled this winter, known as Horseshoe, showed new evidence of a large find that extends the already huge Nanushuk play by an additional 20 miles to the south.

Bill Armstrong, founder and CEO of his namesake company, told the Alaska Journal of Commerce that the Horseshoe wells indicate Nanushuk has the potential to be much larger, perhaps double the established reserves.

It is not yet known how much daily production might increase from an already known initial estimate of 120,000 barrels of oil a day from Pikka, now that the size of the play is larger. First production from Pikka could be flowing down the Trans-Alaska Pipeline System (TAPS) by 2021.

The Horseshoe wells confirm the Nanushuk formation as a significant emerging opportunity on the North Slope, and even a potential game-changer. Geologists believe the discoveries in the relatively shallow formation could hint of more oil in the area.

The horseshoe discovery extends the large Nanushuk formation by an additional 20 miles.

"There have been dozens of wells drilled there, and so to make a discovery of this size in one of the earliest explored areas and one of the most intensely explored areas is not only remarkable, it indicates there are probably many more similar opportunities out there," said David Houseknecht, a geologist with the U.S. Geological Survey.

Permitting for Pikka is underway and the U.S. Army Corps of Engineers is preparing an Environmental Impact Statement.

Repsol holds a 25 percent interest in the Horseshoe discovery and a 49 percent interest in the Pikka Unit.

The Horseshoe discovery confirmed the western North Slope is ripe for activity.

ConocoPhillips in January announced a

HIGHER TAXES continued on page 2

ALASKANS SPEAK OUT AGAINST HB 111

Despite overwhelming public opposition to increasing taxes on oil production, the Alaska House majority passed by a razor thin margin a fundamental re-write of the state's oil tax bill earlier this month. If it becomes law, the bill would triple oil taxes at low prices, similar to the old, failed ACES tax system, which did the same at high oil prices.

HB 111 has been contentious since it was introduced in the House Resources Committee by co-chairs Geran Tarr and Andy Josephson. Industry warned that the bill will weaken Alaska's competitive position for attracting the investment required to develop major new prospects and increase production.

Kara Moriarty, President and Chief Executive Officer of the Alaska Oil and Gas Association, said the bill raises taxes and increases the costs for industry and would put Alaska toward the bottom of the competitive scale.

"This bill is a massive tax increase at low oil prices, a sure recipe for more economic contraction," Moriarty said.

"Imposing significant tax increases and eliminating access to critical incentives will do nothing to increase production," said RDC Executive Director Marleanna Hall. "It creates more harm to Alaska's largest industry and the state's economy as a whole. Alaska cannot tax away the industry's incentive to invest and still expect to have a sustainable economy."

The Department of Revenue conceded HB 111 represents a significant tax increase, but has failed to produce any models of economic impacts to jobs, oil production or the state's economy.

ALASKANS SPEAK OUT Continued on page 4

Will higher taxes keep new oil in the ground? Continued from page 1

significant discovery of 300 million barrels of recoverable oil at its Willow prospect that could produce 100,000 barrels of oil daily. Meanwhile, its Mooses Tooth projects in NPR-A are capable of producing a combined 55,000 barrels a day.

Caelus Energy Alaska has reported it is sitting on a large prospect at Smith Bay, 75 miles northwest of Nuiqsut, that might produce up to 200,000 barrels a day. A smaller Caelus project, Nuna, could produce 25,000 barrels a day.

More than 500,000 barrels a day in new production could come from these and other projects, triggering a big reversal in TAPS throughput. However, each project faces big challenges, including high costs, an extended period of low oil prices, and unstable and unpredictable state tax policy.

The Alaska projects will require billions of dollars in new investments and must compete with lower cost projects elsewhere for funding. Smith Bay alone could require $10 billion to develop.

Legislation being debated in Juneau could impose significant tax increases on industry and eliminate critical incentives.

"Increasing costs, which new oil tax legislation clearly does, will not help bring new discoveries, or any new project, into production," said RDC Executive Director Marleanna Hall.

Alaskan reporter and columnist Tim Bradner warned that shale drillers in the Lower 48 can quickly ramp up production when oil prices rise, resulting in a surge of supply, sending prices back down. As a result, oil prices are likely to range between $40 and $60 a barrel into the next decade.

"Will our legislators raise state taxes on oil production again?" Bradner asked. "If we overcome the technical and economic risks, will we still shoot ourselves in the foot? We've done it before. Hope we don't do it again."

RESOURCE DEVELOPMENT COUNCIL
Growing Alaska Through Responsible Resource Development

/ResourceDevelopmentCouncil @alaskardc

From left to right are Kati Capozzi, Carl Portman, and Marleanna Hall.

RESOURCE DEVELOPMENT COUNCIL

is an Alaskan, non-profit, membership-funded organization comprised of individuals and companies from Alaska's oil and gas, mining, timber, tourism, and fisheries industries. RDC's purpose is to link these diverse industries together to encourage a strong, diversified private sector and grow Alaska through responsible resource development.

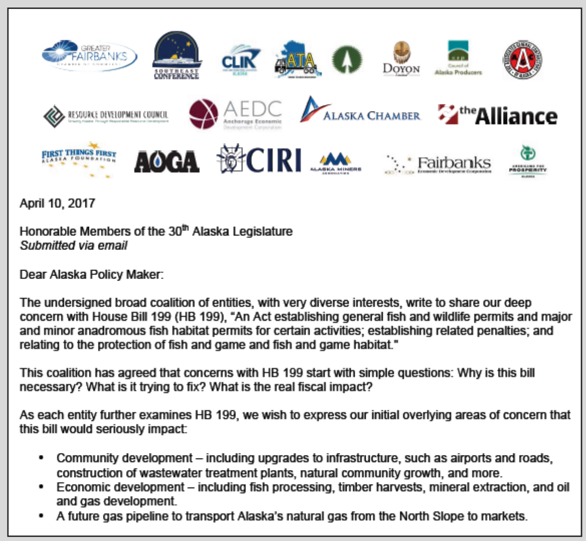
DEEP CONCERNS WITH HB 199

A Message from the Executive Director

In early April, a coalition of 18 businesses and organizations, including RDC, submitted a letter sharing deep concerns with House Bill 199 (HB 199), "An Act establishing general fish and wildlife permits and major and minor anadromous fish habitat permits for certain activities; establishing related penalties; and relating to the protection of fish and game and fish and game habitat."

The bill has been touted as adding protections to fish habitat but what it fails to recognize is that protections are already in place. As Alaskans, we all share the objective of protecting our salmon fisheries, and that is why we support Alaska's existing rigorous and science-based regulatory system.

Unfortunately, HB 199 will delay community and resource development projects, add costs and unnecessary bureaucracy, and is a step backwards in increasing economic opportunity in Alaska with no added benefit to the environment.



April 10, 2017

Honorable Members of the 30th Alaska Legislature
Submitted via email

Dear Alaska Policy Maker:

The undersigned broad coalition of entities, with very diverse interests, write to share our deep concern with House Bill 199 (HB 199), "An Act establishing general fish and wildlife permits and major and minor anadromous fish habitat permits for certain activities; establishing related penalties; and relating to the protection of fish and game and fish and game habitat."

This coalition has agreed that concerns with HB 199 start with simple questions: Why is this bill necessary? What is it trying to fix? What is the real fiscal impact?

As each entity further examines HB 199, we wish to express our initial overlying areas of concern that this bill would seriously impact:

- Community development – including upgrades to infrastructure, such as airports and roads, construction of wastewater treatment plants, natural community growth, and more.
- Economic development – including fish processing, timber harvests, mineral extraction, and oil and gas development.
- A future gas pipeline to transport Alaska's natural gas from the North Slope to markets.

The coalition, including native corporations and economic development corporations, share the same concerns on HB 199. "This coalition knows community and resource development projects in Alaska can be and are done responsibly, with a strong focus on protecting the environment, cultural activities, and wildlife, while providing good-paying jobs, quality of life, and opportunities for people to remain in their communities. Instead, HB 199 would likely cause costly delays for community projects like airport expansions and village wastewater facility upgrades. It could ultimately halt even the smallest of projects."

HB 199 appears to be an effort to fix something that is not broken. Continuing down this process will drive investment away from Alaska, in a time when Alaska must demonstrate we are "open for business."

As HB 199 changes, RDC will continue to monitor it, and any other bill that unintentionally damages Alaskan communities and the economy. Visit akrdc.org for updates, or to find out what you can do to get involved.

ALASKANS SPEAK OUT AGAINST HIGHER OIL TAXES Continued from page 1

Alaskans spoke out against an original version of HB 111 during public hearings held across the state in March. The following is a sample of their comments to legislators:

"When legislation is being considered that could negatively impact the exploration and production of current and future oil, we become very concerned. Continuing to increase the flow of oil in our pipeline should be a priority."
Rick Boyles, Teamsters Local 959

"While NANA supports the implementation of a long-term fiscal plan, we do not support yet another overhaul of the oil tax structure because it presents further risk to development of resources. It threatens the jobs and futures of our shareholders, and Alaskans who have built lives for themselves and their families through opportunities created by the oil and gas industry."
Elizabeth Cravalho, NANA Regional Corporation

"We can address the fiscal deficit and stimulate growth without sacrificing the lifeblood of our economy. HB 111 does not accomplish this, it would be one step forward and five steps back for Alaska's economy, at the expense of Alaska's businesses and industry partners."
Teresa Imm, Arctic Slope Regional Corporation

"This bill is not in the State's best interest. HB 111 will not increase exploration, investment or production and is basically biting the hand that has fed us for several decades."
Bob Hubbard, Plumbers and Pipefitters UA Local 375


More than 100 Alaskans across Alaska's private sector rallied in Anchorage last month in opposition to HB 111, a jobs and investment-killing bill that would increase taxes on the oil industry and raise its cost of doing business in the state.

"...HB 111 creates a less competitive environment in the oil and gas sector, and contributes to the ongoing instability in taxation and regulation by the State of Alaska on this industry."
Sarah Obed, Doyon Limited

"Why is it that during the time of ACES and rising prices, our firm saw less project work and the state saw declines in oil production on the North Slope? Yet after SB 21, with lower commodity prices, we see an uptick in production and our firm employs more union craft? The change in tax regimes. Tax regimes do affect investment strategies of the targeted industry."
Richard Schok, Flowline Alaska, Inc.

"HB 111 would be like farmers eating their seed corn – it briefly satisfies hunger, but kills future potential."
Steve Grabacki

"We need to encourage our legislators to support a balanced approach to the fiscal deficit, and we need to caution them not to kill the golden goose. Solve our fiscal crisis now, but don't destroy our resource industries in the process."
Jim Jansen, Lynden

"If we want the oil industry to ultimately provide an increased share of the state budget, the way to do it is by encouraging production. I believe HB 111 will have the opposite effect."
John Shively

" Tax policies should encourage investment, and in the case of the North Slope, should encourage the delivery of more barrels of oil into the pipeline. It is imperative that our legislature support policies that increase throughput, not punish operators for the legislature's failure to address our fiscal situation in a timely manner."
Mike Satre

"For the first time in 19 years of doing business in Alaska, Aspen Hotels is looking at layoffs because our Kenai Aspen lost over half of its corporate revenue in the last year… I can't raise my rates to create more revenue so it doesn't make sense to me as a business woman to raise taxes in a time of low oil prices. If I raise my hotel rates, I will be less competitive on the Kenai Peninsula."
Carol Fraser, Aspen Hotels

"I liken this bill to raising my daughter, if I gave her rules to live by and every other year changed my mind and gave her a new set of rules, she'd probably need a counselor by now."
Randy Akers

"To increase revenue from the state's oil production, one has to increase production and that can only be induced by creating and maintaining a stable and competitive investment climate for the oil producers."
Paul Glavinovich

"It would be a big mistake to raise oil taxes. I'm certain the results would be less investment, less production, fewer jobs, and a deepening recession."
Cynthia Henry

"It is difficult to believe that the Legislature is once again considering changes to Alaska's oil tax policy. The oil industry has seen massive layoffs over the past few years, yet HB 111 attempts to increase taxes on an industry that is already under duress."
Lorali Simon

"The answer is not to tax and spend more. The answer is to encourage more private investment and more hiring opportunities for qualified Alaskans."
Sam Maloney, student

"Under the current oil tax system, Alaska's share is higher than the producers' at every price point."
Doug Vincent-Lang

JUNEAU FLY-IN: RDC advocates for a durable fiscal plan

Above, Governor Bill Walker and Lt. Governor Byron Mallott meet with board members in Juneau on RDC's top legislative priorities for 2017. At right, the board meets with Senate President Pete Kelly. (Photo at left courtesy Governor's Office, State of Alaska)

More than 40 RDC board members from across Alaska's resource industries participated in the organization's annual Juneau Fly-in on January 23-24 to meet with the Walker administration and legislators on a long-term solution to Alaska's fiscal crisis.

RDC's two top legislative priorities this year are to limit unrestricted general fund spending to a sustainable level of $4.1 billion or less and to advocate for tax policy and regulatory stability that enhances the State of Alaska's competitiveness for all industries to attract new investment and grow the economy.

In a series of meetings with legislators and the administration, RDC President Eric Fjelstad and other board members emphasized Alaska's budget policy should focus first on reversing the unsustainable budget by finding efficiencies and focusing on a series of annual reductions. They agreed with Governor Bill Walker on re-structuring the Permanent Fund to include a framework to use the fund's earnings to support essential services. Only after reducing the general fund to sustainable levels, should additional broad-based revenue options be considered, RDC board members said.

RDC warned of the unintended consequences of tax increases on Alaska's resource industries, explaining that higher taxes will deter future investment in current and new projects that would generate long-term revenues for the state, further damaging the economy and shrinking the revenue pie for everyone.

The fly-in was sponsored by Alaska Airlines, ASRC Energy Services, Caelus Energy Alaska LLC, ConocoPhillips Alaska, Inc., Donlin Gold, ExxonMobil, Hecla Greens Creek Mine, Holland America Line, Lynden, Matthias Consulting, Parker Horn Company, Sealaska Corporation, and Usibelli Coal Mine, Inc.

WOMEN IN RESOURCES

Dozens gather in Juneau at annual reception

RDC's 13th Annual Women In Resources reception, hosted by the women board members of RDC, was held in Juneau on February 8th. The event brought dozens of women executives from across Alaska's resource industries to meet with women legislators, members of the Walker Administration, as well First Lady Donna Walker and Mrs. Toni Mallott.

While the reception is generally informal in nature, the RDC women board members felt it was important to highlight the organization's priorities this year, given the fiscal situation. RDC Officer Jeanine St. John (Lynden) offered remarks, emphasizing the need to formulate a long-term sustainable fiscal plan while doing no harm to the industries that employ thousands of Alaskans and create revenue for the State of Alaska.

Sponsors of this year's event were Alyeska Pipeline Service Company, Arctic Slope Regional Corporation, Caelus Energy Alaska LLC, ConocoPhillips Alaska, Inc., ExxonMobil, Hilcorp Alaska, LLC, Kinross Fort Knox, Lynden, Sumitomo Metal Mining Pogo LLC, Schlumberger Oilfield Services, Parker Horn Company, Tesoro Alaska Company, and Usibelli Coal Mine, Inc.

At left are Rep. Gabrielle LeDoux, Rep. Berta Gardner, Attorney General Jahna Lindemuth, and Commissioner Heidi Drygas. At right are Rep. Harriet Drummond and Senator Mia Costello. (Photos by Judy Patrick)

At left are Senator Cathy Giessel and *Kate Blair, Tesoro Alaska Company. At right are *Lorali Simon, Usibelli Coal Mine; Senator Shelley Hughes and *Wendy Lindskoog, Alaska Railroad Corporation.

*Denotes RDC Board member

NEPA – IT'S TIME FOR A CHANGE

A Message from the RDC President, Eric Fjelstad

Few federal laws have more impact on resource development in Alaska than the Environmental Impact Statement (EIS) process required by the National Environmental Policy Act (NEPA).

Congress passed NEPA in 1971 with a goal of providing agency decision-makers and the public relevant information concerning the environmental impact of proposed projects. The EIS process worked reasonably well in the early years. As I write this, I'm looking at a single volume EIS – approximately 300 pages – for a major resource project that was permitted in the 1980s. Today, the EIS for a major project in Alaska may be 2,000 pages or longer. And that's not counting the appendices to the document, which alone can add thousands of pages. A modern EIS will likely fill a banker box. Good luck carrying that to a meeting.

Why is this happening? I believe a root cause of the problem is the legal system. Courts employ widely-varying levels of scrutiny when they review an EIS. The Ninth Circuit Court of Appeals reviews legal challenges in Alaska, and it has a reputation in some corners as perhaps the most unpredictable appellate court in the country.

To those in the process it may seem like a roll of the dice whether a particular EIS will survive a legal challenge or not. Agencies have responded to this uncertainty by adding layer after layer of conservatism into the EIS process. No issue is too trivial to be examined in detail. "Mr. Joe Q Public, I see you're concerned about the impact of noise from the project on song birds. You want the EIS to address this issue? No problem – we can study that issue and address it in the EIS." This paranoia about legal changes leads to EISs that are focused on addressing everything.

The process is flawed not because there is a lack of information. Rather, there is too much information. The process is more like an unfocused transcription of a meeting rather than minutes that are focused on key issues. This lack of focus comes at a cost – lack of clarity and conciseness, busted schedules and busted budgets, and unnecessary legal risk for agencies and project applicants.

With the change in the federal administration and a favorable Congress there is potentially an opportunity to fix the broken EIS process. I believe that NEPA should be amended – the courts are a major part of the problem and it will take a revision in the actual statute to change their expectations of what agencies must accomplish in an EIS. Here are three ideas that would simplify the process and decrease its time, cost, and risk.

- Limit the Issues – NEPA should be amended to make clear that an EIS will be focused on a limited number of issues identified in the scoping process. Make that 5-10 issues max. This would be a major change in thinking and reflect the view that the EIS should rigorously evaluate the issues of consequence and leave everything else to other forums.
- Page Limits – NEPA should be amended to have a presumptive page limit with a process that would give the lead agency the ability to make a determination that X additional pages can be used if (and only if) necessary to address the specified issues.
- Timeframe Limits – NEPA should be amended to have a presumptive timeframe to complete the EIS with a process that would give the lead agency the ability to make a determination to extend the time frame by X months if (and only if) necessary to address the specified issues.

Last, Congress should order the Council on Environmental Quality to revise the regulations that currently govern the NEPA process to reflect these new prerogatives. Opponents of resource development would undoubtedly fight these changes to the death, but I believe it is a fight worth taking on.

BILLS INTRODUCED TO OPEN ANWR, BUILD KING COVE ROAD

The Alaska Oil and Gas Production Act, which would allow limited oil and gas development within the non-wilderness portion of the Arctic National Wildlife Refuge (ANWR), was recently introduced by U.S. senators Lisa Murkowski and Dan Sullivan. S.49 would allow development of no more than 2,000 acres within the 1.5-million acre 1002 Area, which itself is just a fraction of the 19-million acre refuge. The area that would be opened to development is equivalent to just 0.01 percent of a refuge that is larger than the state of Ohio.

The area is North America's greatest conventional onshore prospect with an estimated 10.4 billion barrels of oil. The 1002 Area is less than 60 miles from the Trans-Alaska Pipeline, which is currently running at one-quarter its original capacity.

The two Alaska senators also introduced legislation to authorize a short, one-lane gravel, non-commercial road for the isolated community of King Cove. The road is needed to link King Cove to an all-weather airport in nearby Cold Bay and will provide residents with reliable access to emergency medical transportation to Anchorage and elsewhere.

"A life-saving road remains the best and only real option to help the people of King Cove," said Murkowski.

"For years, the people of King Cove have been pleading with the Interior Department to be allowed to access their land and in order to get necessary medical care," Sullivan said. "For years they've been told that protecting birds is more important than their health and safety. This is unconscionable."

INDUSTRY DIGEST

Usibelli applauds quashing of anti-coal mining rule

For the first time in years, the coal mining industry scored a major victory when President Donald Trump last month signed a Congressional Review Act resolution of disapproval annulling the Obama administration's stream rule.

Once touted as a "Stream Protection Rule" by the former administration and anti-coal advocates, coal states across the country, as well as the coal mining industry, vigorously opposed the regulation which had nothing to do with protecting streams. Usibelli Coal Mine, RDC, and the Alaska Miners Association advocated against the rule for close to six years.

Congressman Don Young voted in favor of the resolution in February and Alaska's U.S. senators Lisa Murkowski and Dan Sullivan each spoke in support of the resolution to nullify the rule, and spoke in support of states' rights, coal mining jobs, and against unnecessary overregulation by the federal government.

The stream rule, as crafted by the Obama administration, was a one-size-fits-all approach to regulating surface coal mining in America. It failed to recognize the unique conditions of Alaska's coal mining environments and therefore created unattainable standards.

"The rule disregarded states' rights and their primacy over coal programs; it was a solution in search of a problem that was not crafted with stream protection in mind," stated Joe Usibelli, President of Usibelli Coal Mine. "The rule provides no discernible environmental benefits, while duplicating and interfering with existing state and federal rules that already provide robust protections for water quality and natural habitats."

Visit RDC online for the latest update on state, federal issues

Please visit akrdc.org to read recent comment letters and other materials on important state and federal public policy issues.

- Alaska's fiscal crisis
- RDC 2017 policy positions
- Policy Positions letter to legislators
- Oppose HB 111, oil tax increase
- Action Alert: HB 111
- Oppose HB 199, revisions to Title 16, fish habitat
- Support HB 155 – Alaska Mental Health Trust land exchange
- Support for HJR 5, open ANWR
- BLM Planning 2.0 Rule
- Improved National Management Designation Process Act
- Halting EPA use of preemptive or retroactive vetoes
- CERCLA extension request
- Miscellaneous land use permit for Pebble Limited Partnership
- Draft Regional Mitigation Strategy for Northeastern NPR-A
- Reissuance of NPDES permit for Pogo Mine

$3.5 billion lost in economy from oil industry job cuts

The Alaska Department of Labor (DOL) reported there were 2,800 oil-related jobs lost in 2016, which at an average of $120,000 annually, resulted in a $3.5 billion hit to the state's economy.

DOL said industry job losses are now migrating into other sectors, including retail, and expects to see an overall 15,000 jobs losses by the end of 2017. However, federal government employment is growing again, spurred partly by military expansion. Moreover, the state's population is stable, as well as local real estate markets.

If the recession follows historical patterns, economists expect job growth to resume in 2018.

Trump signs sweeping Executive Order

In a sweeping Executive Order, President Donald Trump last month instructed federal regulators to rewrite key rules on climate change and lift a moratorium on federal coal leasing. The order also removed the requirement that federal officials consider the impact of climate change when making decisions.

Trump emphasized the order would spur job creation in the fossil fuel industry. "Our administration is putting an end to the war on coal," he said.

The order comes after several actions by Trump to roll back heavy Obama-era restrictions on mining, oil, and coal operations. The new administration also approved the Dakota Access and Keystone XL pipelines, which Obama halted.

"For eight straight years, the Obama administration engaged in a full-on assault against our nation's energy sector — creating hurdles and obstacles at every turn," said Congressman Don Young. "This action by the President represents a major step in the right direction for streamlining the development and production of our nation's abundant and reliable resources."

Hal Quinn, President of the National Mining Association, said the clean power plan and the moratorium served the interests of political activists, not the American people. "The President's actions today help to restore common sense priorities and the important balance between costs and benefits that have been missing from federal regulatory policies," Quinn said.

Burdensome BLM Planning 2.0 Rule repealed

President Donald Trump has signed into law a resolution that U.S. Senator Lisa Murkowski shepherd through the Senate which repeals a burdensome Obama administration land management policy known as the Bureau of Land Management (BLM) Planning 2.0 Rule. If left intact, the rule would have harmed timber, energy development, mineral production, and recreation on federal lands.

"Decision-making authority will now be back in the hands of local and state entities in Alaska and other Western states with those who actually live near and have first-hand knowledge of these lands making the important land management planning decisions, instead of those who work thousands of miles away at BLM headquarters in Washington, D.C.," Murkowski said.

RESOURCE DEVELOPMENT COUNCIL

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