

# RESOURCE

May  
2006



## REVIEW

A PERIODIC PUBLICATION OF THE RESOURCE DEVELOPMENT COUNCIL FOR ALASKA, INC.

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## Kensington



### THE RIGHT PROJECT AT THE RIGHT TIME

BY TIM ARNOLD

Once again, the U.S. Army Corps of Engineers issued a ringing endorsement of the environmental soundness of Coeur Alaska's Kensington gold mine when it reinstated its 404 permit in late March. With the permit in hand, Coeur is looking forward to a busy year as it continues with an aggressive construction schedule. The company is aiming to complete the project and start producing gold in 2007.

To date, Coeur Alaska has completed extensive underground work to prepare the mine for operation. Above ground it has built a camp for workers, installed a water treatment plant, a temporary dock, and completed much of the grading and site preparation for the construction of the mill.

In the coming months, much of the work will focus on construction of a dam at Lower Slate Lake and construction of the mill.

While Coeur Alaska moves ahead with stepped-up hiring and construction, the Southeast Alaska Conservation Council, the Sierra Club, and Lynn Canal Conservation have resumed their legal attack against the mine. These groups persist in their efforts despite a permit that has now been twice validated; despite

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## STAKES HIGH IN OIL TAX REVISION

Proposed changes to the state's oil production taxes have dominated the legislative agenda in Juneau this spring and the stakes are high as the Legislature attempts to strike the right balance between increased taxes and critical long-term investments needed to spur new oil and gas production.

Last month more than a dozen RDC board members visiting Juneau told legislators that the new petroleum production tax (PPT) must not jeopardize the long-term investment required over the next ten years to increase production.

North Slope production is declining about six percent a year. With industry investing at current levels, the state will be at half of today's production in just ten years. However, the state's long-range production forecast assumes a three percent decline annually. Cutting the decline

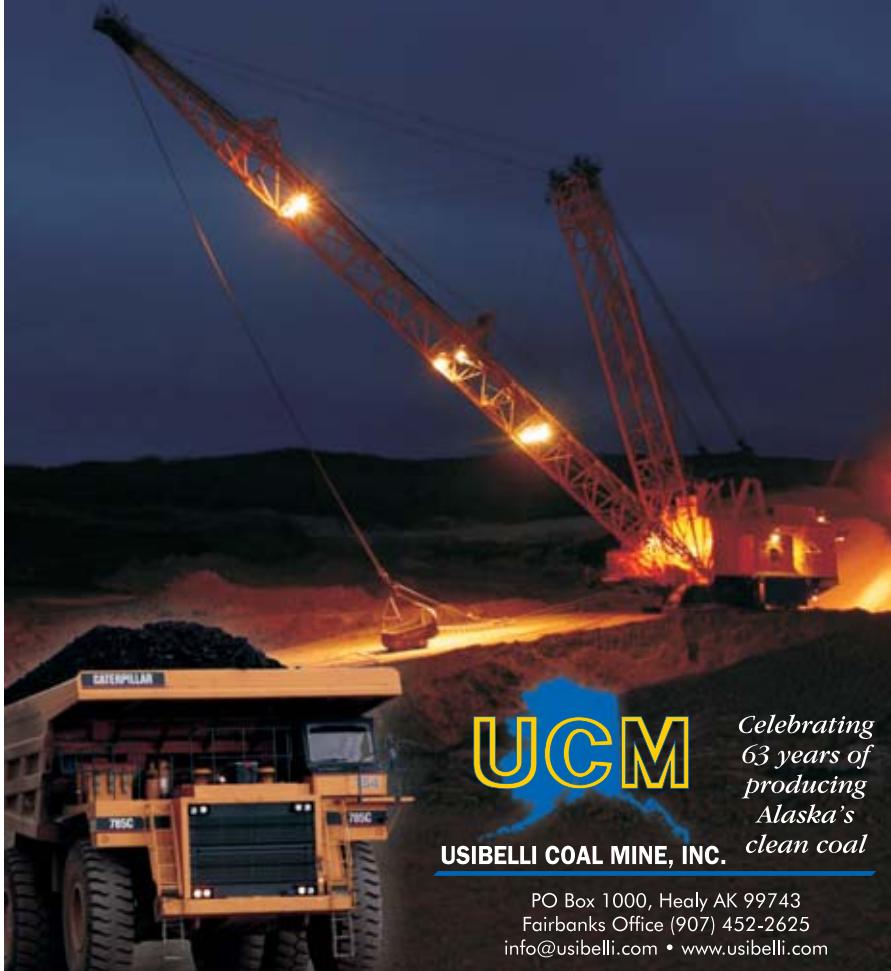
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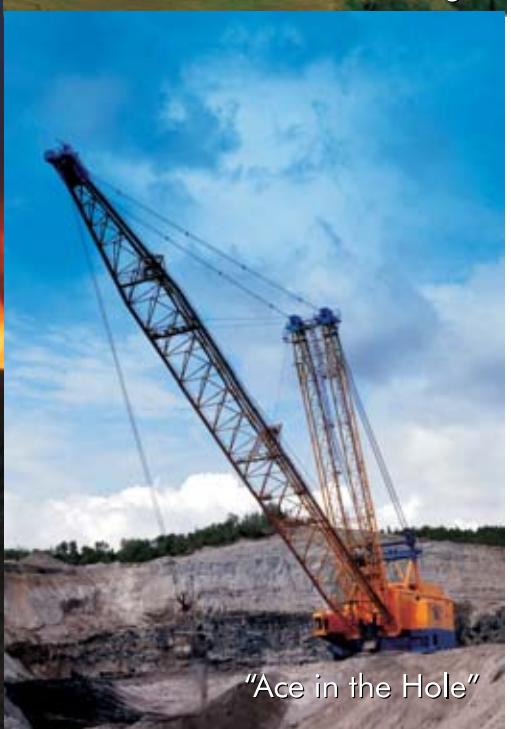
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while protecting and enhancing the environment.



## GUEST OPINION

# FAIR SHARE: A TAX FOR TWO GENERATIONS

*Editor's Note: The following Guest Opinion was recently published in the Anchorage Daily News and is reprinted here for the benefit of our statewide, Lower 48 and Canadian readers. Harbour is a former RDC board member; a founder of Arctic Power; former chairman of the Anchorage Chamber of Commerce, the American Bald Eagle Foundation and the Alaska Council on Economic Education. He is the former public affairs director of the Arctic Gas consortium and a former government relations director for Atlantic Richfield Co. Dave has no financial ties to the oil industry and provides this piece as a private citizen and not as a state employee.*

Governor Hammond and Legislative leaders provided a generation of reasonable oil tax stability. In a historical press conference on March 17, 1981, they announced a "fair share" tax policy the oil companies also supported.

That legislative policy provided Alaska a 30% share of revenue from severance, income and property taxes and royalties. The policy removed oil income tax discrimination, increased severance tax from 12.25% to 15% and repealed individual income taxes. Modifying the economic limit factor, ELF, it encouraged less prolific wells while maintaining jobs, royalties, income and property tax payments and maximizing TAPS throughput. Some say that policy's outdated today, but it sure did provide stability and massive investments for a generation.

Our generation struggles to create a 2006 "fair share" definition, replacing severance tax with a higher Petroleum Production Tax (PPT). The Administration negotiated the PPT with industry as basis for gas pipeline progress. Legislators haven't agreed; some want higher taxes. Agreement among the Governor, Senate, House and industry must soon emerge. Without consensus, as occurred 25 years ago, the investment climate could deteriorate and further delay gas pipeline progress.

These principles could contribute to a successful 2006 oil and gas tax policy:

**Fair Share Principle.** With the Administration's proposed PPT tax replacing the severance tax, Alaska could get about a 35% resource share, 5% more than the 1981 "fair share" definition. That's about a billion dollars above this year's \$1.4 billion windfall surplus, half a billion above the 1981 formula. Oil industry taxes and royalties currently provide about 90% of Alaska's unrestricted general fund revenues. Other industries pay a much smaller share of state revenue. With repeal of the personal income tax in 1981, citizens began paying no share of state tax revenue. Before adding to the Administration's PPT increase, high tax advocates should explain why more than a 35% share is "fair;" how it improves, without damaging, our investment climate.



Pictured above is Dave Harbour with (the late) Governor Jay Hammond.

### Maximum Benefit Principle.

Some leaders promote taxing companies to a "break point," using our constitution as justification. Article 8 Section 2 says, "The legislature shall provide for the utilization ... of all natural resources ... for the maximum benefit of its people." High tax advocates say we should squeeze more drops of tax from the oil turnip than the PPT extracts. Some demand dramatically higher taxes, fearful of "leaving money on the table." But the Constitution didn't restrict "maximum benefit" to dollar benefits, nor did it selfishly restrict benefits to our generation of "people." Leaders should unselfishly aim for a long-term, sustainable tax structure that creates, as in 1981, an investment climate providing for "... the maximum benefit of," this and future generations.

**Windfall Principle.** Some tax advocates claim, "Those taxpayers received a windfall," an irrelevant observation in a free market, capitalist nation. High world oil prices produced a

"windfall" for Alaska's government, a billion dollar surplus. So, why don't we hear demands for government to make tax windfall refunds to taxpayers? Alaska's fall 2002 Revenue Forecast projected that with oil in the \$22-25 dollar range the state would have a \$1 billion annual deficit by 2005. Others predicted draconian cuts in government services by now. Instead, we have a surplus. What happened? Oil companies enjoyed high oil prices and so did Alaska which gets tax and royalty percentages of value.

It's more than a little bit hypocritical and 'third world' that in an effort to justify higher taxes, anyone should put a "windfall" label on taxpayers to rationalize increasing government's "windfall" at taxpayers' expense. 'Windfalls' aren't necessarily evil; a free market phenomenon, they balance bad times and support reinvestment. Just as government won't be distributing tax refunds when it experiences tax windfalls, so should it not demand more than its usual percentage from taxpayers when world oil prices are high.

Using these principles, this generation can build consensus for a solid, 21st Century oil tax policy in a non-partisan way. We'll have our kids' best interest in mind—as the Constitution's framers envisioned—and boost our investment climate, too.

## DAVE HARBOUR

"Before adding to the Administration's PPT increase, high tax advocates should explain why more than a 35% share is 'fair;' how it improves, without damaging, our investment climate."

# KENSINGTON PROJECT

## MOVES FORWARD

(Continued from page 1)

a mountain of scientific and technical data that supports the project; and despite overwhelming local and regional support for the project.

### Economic Impact

Coeur Alaska will spend \$190 million to construct the mine – and much of this will go to contractors who are based in or who have strong links to Alaska. During the construction phase, approximately 300 workers will be employed on site – with a strong preference for local hires. Once the mine begins operating, it will provide long-term employment for some 200 Alaskans and add tens of millions of dollars annually into the economy of Southeast Alaska. Annual wages and benefits are expected to be \$16 million. The mine will generate state and local taxes amounting to more than \$10 million, and continue to make significant

contributions to deserving local civic and charitable organizations.

### Minimal Visual Impact

By industry standards, Kensington is a relatively small underground mine. As such, there is very little land impacted by the construction of the mine or the operation of the mill. With the exception of a very modest dock facility, the Kensington mine will not be visible from Berners Bay or Lynn Canal.

### Permitting Method For Tailings Disposal Is The Only Option

The rock material left after removal of gold is referred to as “tailings.” Tailings from the Kensington mine will be inert material similar in content to the sand at nearby beaches. Forty percent of the tailings will be recycled back into the mine as fill material.



*After performing 900 environmental studies, investing more than \$25 million in environmental reviews and working with local, state and federal agencies to secure the necessary permits, Coeur Alaska is moving forward with the underground Kensington Gold Mine northwest of Juneau.*

The remaining tailings will be placed in a lake that (even in its natural state) is only marginally productive.

When mining is complete, Coeur Alaska will rehabilitate the lake, making it three times larger than it is today. This is consistent with an EPA-contracted study that concluded the productivity of the reclaimed lake will be better than its current natural state.

### Best & Brightest

Kensington has incorporated the best and brightest thinking into this project in every area. Over the years,

Kensington has been the subject of some 900 separate studies to the tune of more than \$25 million.

### Right Project, Right Time

With a million ounces of proven and probable reserves, an annual production rate of about 100,000 ounces, and a cash cost of about \$250 per ounce, Kensington is an ideally sized project in every sense of the word. It fits the landscape with a light environmental footprint; it fits Southeast Alaska’s desire for economic growth and diversification while protecting the environment; and it arrives at a time when the world demand for gold continues to increase.

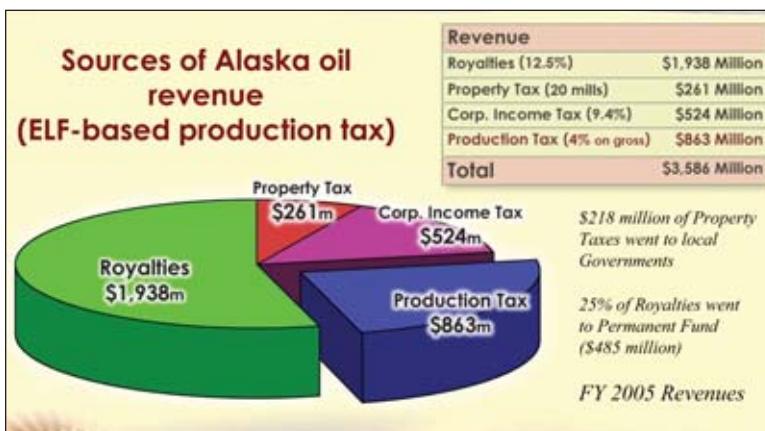
For these reasons and many more, we are excited about the Kensington mine and building a project that will contribute real and lasting value to the people and economy of Southeast Alaska.

*Tim Arnold is Vice President and General Manager of Coeur Alaska. He also serves on the RDC Board of Directors.*



*Management of the mine tailings in Lower Slate Lake was the permitted alternative as it had the least environmental impact. After mining, the reclaimed lake, at right, will be about three times larger than the current size, at left. The larger lake will have improved productivity and aquatic habitat. Native wild fish will be restocked into the lake. Currently the lake is relatively unproductive and naturally occurring water quality does not presently meet state standards.*

# WILL NEW OIL TAX MAKE ALASKA MORE COMPETITIVE IN ATTRACTING THE INVESTMENT NEEDED TO BOOST PRODUCTION?



Alaska's oil and gas revenues come from a variety of sources with royalties accounting for the largest piece of the pie. Other sources include property taxes, corporate income taxes and the production tax. More oil production over the long-term will net the state additional royalties and higher corporate taxes.

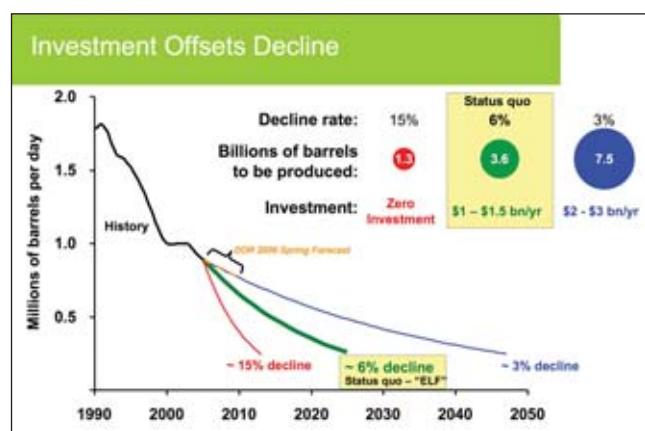
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in half to meet state assumptions would require industry to double its annual investment from about \$1.5 billion now to \$3 billion.

There are more than 15 billion barrels of oil still to be produced on the North Slope, but much of it is technically and economically challenged. Without a long-term tax strategy that encourages industry, Alaska risks losing the tens of billions of dollars necessary to develop the resource and extend the life of the oil pipeline.

If the Legislature overreaches in its tax take, more

investment dollars are likely to flow abroad where costs are lower and return on investment is higher. Under the various PPT bills before the Legislature at the time this publication went to press, Alaska would have the highest marginal tax rate in the United States. Alaska is already considered to have the highest costs of any oil producing province in the world.

Last year the oil and gas industry paid more than \$3.5 billion in taxes and royalties to the state. The Governor's original 20/20 PPT proposal, which the industry has reluctantly supported, would in-



A doubling of current investment by industry is required to meet the state's production and revenue forecasts, which assume a 3% annual decline in production. In ten years, assuming current levels of investment, Alaska will produce half the oil it is producing today, a 6% annual decline.

crease total government take to 57 percent from the current 54 percent.

"RDC is concerned with applying a significant tax increase on the one industry responsible for nearly 90 percent of the state's general fund revenues," warned RDC Executive Director Tadd Owens in testimony last month before the Senate Finance Committee. "The Governor's original proposal — a doubling of the effective tax rate — was troubling in its own right. The current Senate version of the bill is extremely worrisome."

RDC encouraged the Legislature to focus on two issues when considering the new tax structure. First, what system will best make Alaska a competitive place for capital investment for the next several decades? Second, will the new system contribute to budgetary stability or will it exacerbate Alaska's historical pattern of revenue peaks and valleys?

RDC believes any new tax system should place Alaska at a competitive advantage in terms of attracting capital and efforts should be made to address the issue of long-term revenue stability.

Several years ago, the state revenue forecast projected a



Today the oil and gas industry gives approximately 54% of its revenues to the government, the highest tax take of any industry in any state. The industry has reluctantly agreed to increase its tax burden to 57.5% under the Governor's new tax proposal.

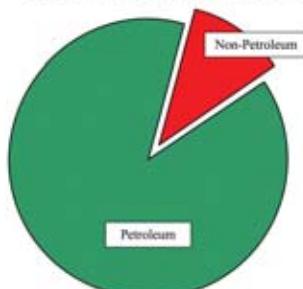
\$1 billion deficit by 2005 with oil prices in the \$22 to \$25 range. The state is now projecting a \$1.4 billion surplus this year.

Owens explained a tax policy that drives investment away from Alaska and leaves oil in the ground would have serious implications for state revenues regardless of the

(Continued to Page 6)

## Alaska's Economy Is Dependent on Oil & Gas

FY05 Unrestricted Revenue



Since the completion of TAPS, petroleum revenues have averaged 84% of the state's unrestricted general fund. It is estimated to be 90% in FY07. Two elements are critical to the oil revenue forecast: price and volume.



## Guest Opinion

**Michael L. Menge**

### PREMATURE TO RENDER JUDGMENT ON PEBBLE

"Ready, aim, fire" is the traditional litany of any marksman hoping to hit his target. But critics of the Pebble mineral development have confused that sequence, firing aimless broadsides at the project even before a clear target has emerged.

Recent efforts to inflame public opinion against the Pebble copper-gold deposit as an inevitable environmental catastrophe ignore two fundamental truths. First, Pebble is not a working mine, nor even a mine under construction. It's a mineral deposit whose owners, though certainly busy determining its extent, have yet to file a single permit to begin building a working mine. Second, the state has a comprehensive process established in law to ensure any mineral development at the site will be done right — or it won't be done at all.

The Pebble deposit lies just north of Iliamna Lake, 236 miles west of Anchorage. It holds approximately 31.1 million ounces of gold, 18.8 billion pounds of copper and 1 billion pounds of molybdenum in measured and indicated resources, and 10.8 million ounces of gold, 5.9 billion pounds of copper and 361 million pounds of molybdenum in inferred resources. How much would be feasible to mine is yet to be determined.

Such numbers mean Pebble could be one of the largest mineral deposits in the world. They could justify investments creating hundreds of construction jobs and 1,000 permanent jobs in a region where the declining commercial fishing industry has left some residents eager for a more diverse and stable economy. Mine proponents hope to duplicate the success of the Red Dog zinc mine, which generates hundreds of jobs for rural Alaskans and funds most of the local government and economy of Northwest Alaska.

Like Red Dog, however, any development at Pebble would be subject to strict environmental regulations, laws and permitting restrictions. There is no argument that the land and waters sur-

rounding the Pebble deposit help support Bristol Bay's hugely important commercial, subsistence and sport fisheries. What should be equally clear, though, is that the Department of Natural Resources is committed to meeting its responsibility to balance the potential economic and social benefits of developing non-renewable mineral resources with the potential risks to the region's renewable resources.

Over the last decade, our department has assembled a Large Mine Project Team, an interagency group that works cooperatively with large mine applicants and operators, federal resource managers, local governments and the Alaska public to ensure mining projects are designed, operated and reclaimed in a manner consistent with the public interest. These experienced professional engineers, geologists, biologists, hydrologists and environmental specialists from a number of state and federal agencies have guided the Red Dog, Ft. Knox, Pogo, Greens Creek, Kensington and other mine projects from concept, through development, to final production. If a planned mine can't withstand this team's strict scrutiny, it simply doesn't get built.

Any plan that Pebble's operators propose will be subject to an exhaustive environmental review that starts with environmental baseline data, continues through the mine's initial development and productive life, and persists long past closure with provisions for long-term site monitoring and maintenance to protect other natural resources. The permitting process also includes extensive public education and involvement, and final plans invariably incorporate many public suggestions. State officials have already organized and attended multiple forums about the Pebble project in rural and urban Alaska, where they explain the permitting process and listen carefully to the concerns of the attendees.

As the operators of the Pebble project gather more information about their de-

posit, they will undoubtedly continue to refine their plans for how they would propose to develop it. Until they complete those plans and lay them before the state and the public, however, any effort to generate opposition by appealing to emotions rather than facts is simply premature.

While Pebble does create significant challenges for Alaska, it also offers exciting possibilities. I encourage everyone to hold their fire on this issue until a clearer target emerges. We'll be more likely to hit the bulls-eye — and less likely to hurt anybody with a stray round.

*Michael L. Menge is Commissioner of the Alaska Department of Natural Resources.*

### PETROLEUM PROFITS TAX

*(Continued from page 5)*

price of oil. The production decline rate would likely accelerate, costs would rise and the economics of new prospects would fail.

"RDC fails to see how taking an additional \$1 billion annually from the industry will encourage the levels of investment Alaska needs to maintain a healthy oil business," Owens said.

"RDC's members are concerned that the new tax could end up focusing too greatly on short-term revenue generation at the expense of long-term investment," Owens added. "Rather than begrudging the industry for making money, we ought to create a system that ensures the long-term profitability of operating in Alaska. A profitable oil and gas industry equates to economic opportunities for Alaskan firms, and jobs for future generations of Alaskans. More investment means higher oil production and a healthier revenue stream to state government."



## ALASKA-CANADA NORTHERN ENERGY CONNECTION

*Editor's Note: Northwest Territories (NWT) Energy Minister Brendan Bell led a delegation to Alaska in early April. The delegation included twelve Aboriginal, political and business leaders from across the NWT. In addition to meeting with Governor Murkowski, several Cabinet Ministers, members of the State Legislature and Alaska Native Corporations, the delegation visited oil and gas facilities on the Kenai Peninsula and the North Slope. The following is a condensed version of Minister Bell's speech before RDC's April 6th Breakfast Forum at the Petroleum Club in Anchorage.*

The Northwest Territories (NWT) is in a position mirroring that of Alaska in the 1970s: on the verge of significant oil and natural gas development and working to ensure that the benefits flow to the NWT region and its people.

The time is now for Arctic natural gas to flow to market, first from the Northwest Territories, and then from Alaska. Together, we can establish the North as the most secure supply of energy for North America.

It is important to recognize the Alaska and NWT projects are not in a two-horse race to deliver gas to market. The real race is not one of competing lines, but one of meeting challenges to address labor shortages, adapting to rising steel prices, creating regulatory efficiencies and beating offshore liquefied natural gas reserves to market.

Collaboration on these issues will improve the prospects of both projects.

### Mackenzie Gas Project

Regulatory hearings for the NWT's Mackenzie Gas Project are on schedule to conclude by the end of 2006 – to be followed by a construction decision from producers in 2007. Provided that our project proceeds on target, NWT gas will flow to market sometime in 2011.

That should nicely coincide with the target date for construction of the Alaska Gas Project. This staggered timing paves the way for collaboration on important issues of labor and regulatory efficiency. The sharing of best practices for training and the mobilizing of labor forces in each region are two key areas to explore going forward. In addition, as the Alaska line will inevitably pass through Canadian soil, Alaskans can benefit from monitoring our approval process and gearing up for the unique regulatory environment that must be navigated in Canada.

### NWT Oil And Gas Potential

The NWT is excited about the future as we begin to scratch the surface on some of our untapped resource potential. Although the Mackenzie gas project is underpinned by 7 trillion cubic feet of known gas reserves, the proposed pipeline will provide an energy corridor for further exploration and investment that is certain to lead to undiscovered resources.

The National Energy

"It is important to recognize the Alaska and NWT projects are not in a two-horse race to deliver gas to market."

Board estimates our potential at 100 trillion cubic feet based on the information we have today. History, however, has shown these types of basin discoveries invariably exceed expectations. There is no reason to believe the Mackenzie Valley will be any different. Alaskans are intimately familiar with this reality. Prudhoe Bay reserves, once estimated at 1 billion barrels, have now produced over 14 billion barrels of oil to date.

### Why The NWT Must Succeed

There are those that have said the NWT is not ready for a Mackenzie Valley pipeline. Thirty years ago, the Berger inquiry agreed. But times have changed and we believe the NWT project is poised for success.

Aboriginal leaders in the NWT are no longer philosophically opposed to the development of resources on their traditional lands. Staunch opposition to development, voiced during the 1970s, has been replaced by a desire to negotiate maximum benefits from development, while imposing safeguards to minimize environmental impacts.

Meanwhile, Canada's newly elected federal government is now firmly in support of the Mackenzie Gas Project - working to support

the Aboriginal Pipeline Group and its one-third ownership stake in the project - while taking steps to provide fiscal certainty to producers who have invested heavily in the project to date.

Most importantly, the NWT project will move forward because it must. There is growing disparity between regions and communities in the Northwest Territories. Yellowknife (our capital) and the regional centers of Inuvik and Norman Wells have prospered as a result of diamond mining and oil and natural gas development. Unfortunately, this prosperity has not been felt equally in our small and more remote communities. The Mackenzie Gas Project will help to reduce this imbalance and expand the socio-economic benefits of development to a broader spectrum of residents in the NWT.

Like Alaska, the NWT must strike a fine balance between fostering a fiscally competitive environment that is economically viable for industry while maximizing the benefits of development for its residents.

I look forward to working in partnership with Alaskans as we face the challenges ahead and strive to leave a lasting legacy of sustainable development for the future generations of the Arctic.

# TRI NUMBERS FOR RED DOG MINE ARE MISLEADING

The Environmental Protection Agency's (EPA) recently published Toxic Release Inventory (TRI) report for the Red Dog Mine lends itself to misinterpretation.

Every year industry must calculate and report its TRI numbers to the EPA. Since 1998 mining has been included in this requirement and due to the report's structure, the industry's numbers have been the highest in the nation.

In the case of mining, 99 percent of what is reported as pollution occurs through the process of mining and storing rock.

This process is considered to be a "release to the land" even though the rocks never leave the site and are managed in contained storage systems.

TRI regulations require all mining companies to report the movement of rock if it contains certain naturally occurring minerals that are included on EPA's list of about 650 chemicals and compounds. Due to size and high-grade nature of the Red Dog deposit, the mine has reported the nation's largest 'release' for the past three years.

"This information is too often misconstrued to be pollution and evidence of poor environmental practice and that is not the case," said Jim Kulas, Environmental Superintendent, Teck Cominco Alaska. "These are not true releases to the environment. The minerals are within rock that we have simply moved from one place to another," Kulas said. "The rock is placed in piles that are permitted, monitored and all their runoff is collected."

Red Dog, the largest zinc mine in the world, is operated by Teck Cominco Alaska under an agreement with NANA Regional Corporation (NANA). NANA is the landowner and Teck Cominco is the operator.

Red Dog, one of the most highly regulated mines in the world, has established an Environmental Management System that has been certified to meet the stringent international ISO 14001:2004 standard.

"As landowners we hold Teck Cominco to the highest standard when it comes to protecting the environment and the subsistence lifestyle of our shareholders," said Marie Greene, President, NANA Regional Corporation. "We are pleased with the operation and the environmental protection measures that are in place."



## TRI: FREQUENTLY ASKED QUESTIONS

### Q: What is TRI?

A: TRI stands for 'Toxic Release Inventory' and was created by the U.S. Environmental Protection Agency (EPA). The TRI is an annual reporting of certain amounts of chemical substances released into the air, water and land. Releases as defined by TRI are not necessarily uncontrolled.

### Q: Why does Red Dog have to report TRI data?

A: In 1998, metals mining operations, including Red Dog, were included in the list of industries that must report TRI data to the EPA and the State of Alaska each year. The report quantifies the amount of each substance that is released by a facility to the air, water and land.

### Q: What does TRI mean by release to the air, water or land?

A: For metals mining facilities, a release to the land includes the rock and processed rock the mine moves, stores or disposes of on the mine site. This material makes up over 99% of the substances reported for Red Dog. As a result, the TRI report from Red Dog and other metals mines will be unlike the reports from other industries in that most of the reported material is contained in managed facilities on the mine site. True releases from Red Dog do not occur anywhere near the extent noted in the reported numbers.

### Q: Does Red Dog have the necessary permits for the water containment system?

A: Yes. Red Dog has all the permits necessary to operate the extensive water containment system and a state-of-the-art water treatment system. Water collected in the containment system goes to the sophisticated water treatment plant where the metals are removed. The treated water is released to Red Dog Creek after it is tested to make sure it meets strict discharge standards.

### Q: Are these releases legal?

A: Yes.

### Q: Why have Red Dog's TRI numbers made it number one in toxic release for the United States?

A: Mining's TRI must include the movement of naturally occurring waste rock as a release to the land. A court ruling in 2003 dramatically changed what other mines had to report and as a result Red Dog became the number one release reporter. The court ruling allowed some mine operators to exclude waste rock where certain substances are less than 1%. Red Dog waste is slightly above the 1% criteria so it has to continue to count the substances in that material.

### Q: Do the numbers mean humans & animals are at greater risk?

A: No. The TRI numbers are only a measurement of the amount of materials managed by a facility and not a measurement of materials truly released to the environment.

### Q: How does the release of zinc compounds to Red Dog Creek compare to pre-mining days and today?

A: In 1982, seven years before mining was initiated, an outside contractor calculated that some 255,000 pounds of zinc compounds were released to Red Dog Creek through naturally-occurring processes. In comparison, in 2004, the number was 495 pounds released to Red Dog Creek, a small fraction of what was released to the creek naturally.

# ENDANGERED SPECIES ACT LISTING BEING CONSIDERED FOR BELUGA WHALES

The National Marine Fisheries Service (NMFS) has initiated a status review for the Cook Inlet beluga whale population to determine if it should be listed under the Endangered Species Act (ESA).

Over-harvesting by subsistence hunters was identified as the primary factor behind the beluga stock declining by nearly 50 percent between 1994 and 1999. NMFS declared the belugas depleted under the Marine Mammal Protection Act (MMPA) in 2000. At that time, they were not recommended for listing under the ESA because the subsistence harvest was believed to have been the cause

of the decline and a regulatory regime had been established to restrict the harvest.

At the time, RDC intervened on NMFS' behalf in litigation questioning this designation. The court sided with RDC and the agency.

The latest survey of belugas, conducted in June 2005, showed an abundance estimate of 278, considered near the lower limit of the expected variability for a stable population. Due to legislation developed by Senator Ted Stevens, the subsistence harvest is now limited to one or two animals per year under a co-management agreement.

NMFS is concerned the



*The National Marine Fisheries Service has begun a status review for the Cook Inlet beluga whales to determine if they should be listed under the Endangered Species Act. Such a listing would likely result in critical habitat designations in Cook Inlet, impacting a wide range of human activities, including expansion of local ports, oil and gas development, commercial fishing and shipping.*

population is not trending upward to date and the reason for the stagnant numbers remains a mystery to them. One theory is that young whales are difficult to count in the aerial surveys because they blend into the gray waters of Cook Inlet. These whales, as they mature, will be more easily accounted for in future surveys.

Fortunately, the population may be improving. A NMFS report from the August 2005 aerial survey reports "unusually high numbers of juveniles and calves were present with the white adult belugas." It also states, "the counts from August 2005 were higher than uncorrected estimates from June during the past seven years."

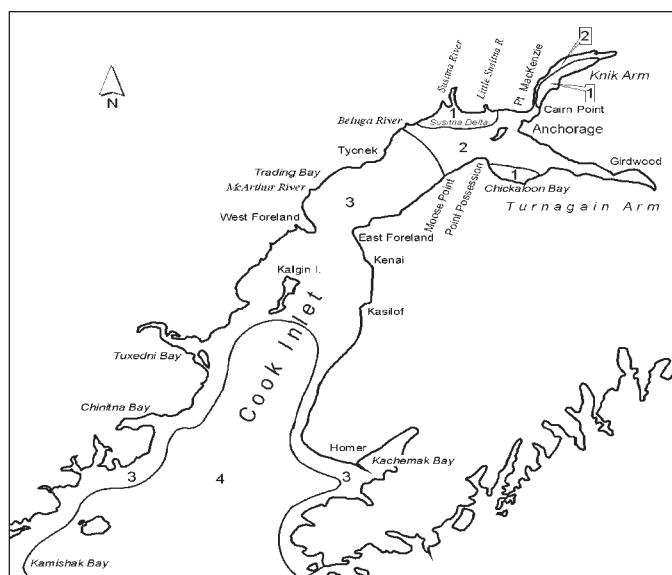
Additionally, NMFS studies report contaminant levels for Cook Inlet belugas are lower than those found in similar populations elsewhere. "Given these positive trends, a new status review seems completely unwarranted," said Eric Britten, Manager of Business Planning, Horizon Lines.

If NMFS concludes the beluga should be reclassified under the ESA so soon after

its declaration under the MMPA, critical habitat designations will likely coincide. Critical habitat designations would pose far-reaching significant impacts to human activities in and around Cook Inlet, including shipping, oil and gas exploration, development and production, wastewater utility discharges, commercial and industrial coastal development, and commercial and sport fishing. In fact, much of the critical habitat would likely be concentrated in the upper inlet where human development is more extensive.

"Unfortunately, this designation will only lead to additional permitting hurdles and subsequent costs with no added benefit to the recovery of the population," said Britten.

RDC has recently reconvened a stakeholder group to participate in the status review. The stakeholders include the three regional local governments and a broad range of Cook Inlet businesses and industries. NMFS is seeking public comment on the status review by May 23. Visit the RDC website for additional information and updates.



Above are habitat areas identified by NMFS in its Draft Conservation Plan for Cook Inlet beluga whales. NMFS considers Type 1 habitats as high value/high sensitivity; Type 2 are high value; Type 3 includes winter habitat, secondary summering sites and Type 4 denotes the remainder of the known range within Cook Inlet.



## OBSERVATIONS ON PETROLEUM PRODUCTION TAX

In April I visited Juneau with a number of other RDC directors to discuss the proposed petroleum production tax (PPT) being debated in the Legislature. We met with officials from the Murkowski administration and members of the House and Senate from both parties to get a better idea of how the state's leading policymakers are viewing the new tax and to express some of RDC's concerns.

I need to acknowledge that the current severance tax with its economic limit factor (ELF) does need some revision. This tax regime was established about 15 years ago when the average price of oil was about \$17 per barrel. The global oil markets have changed drastically, and our production tax should be revised to take into account the structural shift in those markets.

However, changing the methodology for collecting taxes is a tricky business, and I would like to point out some of the pitfalls that I see facing our legislators.

First, I believe we are about to turn government on its head. Rather than identifying and prioritizing the state's programmatic needs and then designing a tax system to accommodate those needs, we are considering raising hundreds of millions of dollars in new taxes without a plan to guide the management of that revenue or of the \$1.5 billion surplus we are currently enjoying because of the revenue we collect from the oil industry.

Will state government simply grow to meet the new revenues? How sustainable would that scenario be? Will the anticipated surplus be saved? If so, where – the Constitutional Budget Reserve, the principal or earnings of the Permanent Fund, some new account?

For years RDC and numerous other business and civic groups around the state have been begging our policymakers to develop a fiscal plan that would give more stability to our government's revenue picture. Without such a plan, the current tax may well end up maximizing short-term revenue at the expense of the long-term, significant investment needed to stem the steady decline we have seen in oil production.

I also am concerned because it seems the

**"The good news for me during my visit to Juneau was that the Legislature is working very hard and spending considerable time trying to understand all of the various aspects of this very complicated situation."**

Legislature has been put in an almost impossible situation. They have been asked to consider imposing a complicated new tax regime, a difficult job in itself. However, they have also been told the new tax system will be made a part of the gasoline agreement with the producers, an agreement which purportedly will provide that the new tax cannot be changed for 30 years or more.

Such a situation might drive the Legislature to tax more on the high side than the low side. While such a strategy could well prove beneficial from a monetary point of view in the short run, it could severely damage future investment in our oil fields, compromising long-term production and revenues.

Another complication that might drive the Legislature to aim for the high side of the tax revenue curve is the belief by some that the state should "maximize" its take from the industry. I believe there is a fine but appropriate line between Alaska getting its fair share from the industry and maximizing what we think we can take from the oil industry. I don't know of anyone in Alaska who believes the municipal government should "maximize" what it can take from its citizens.

The key to maximizing state revenues from Alaska's bountiful oil and gas resources is investment – the significant new capital required to stem declining production. In the long run, the best way to maximize revenue is to maximize production. This must be the Legislature's end goal.

If the Legislature overreaches, the ramifications could be severe, especially considering a doubling of current investment by industry is required to meet the state's most recent oil production and revenue forecasts for the next decade. If that investment is not made in our oil fields, actual production and revenue ten years out from now could be half of what the state is now forecasting.

Lastly, the Legislature should consider whether a new tax might drive us back into multi-million dollar litigation with the oil industry over how to administer the new tax. Is the PPT the best approach to solving the problems with ELF, or might we be better off fixing a tax system we already know?

The good news for me during my visit to Juneau was that the Legislature is working very hard and spending considerable time trying to understand all of the various aspects of this very complicated situation. The only advice I can give them is to take their time and consider the potential long-term consequences of their actions.

We have too much of Alaska's future at stake to make a hasty or, worse yet, a bad decision.

# RDC NEWS DIGEST

## COMMENTS DUE ON COOK INLET PERMIT

The U.S. Environmental Protection Agency and the Alaska Department of Environmental Conservation are seeking public comment up to May 31st on the renewal of the National Pollutant Discharge Elimination System (NPDES) general permit for oil and gas production in Cook Inlet.

The conditions and limits established through this renewal process will govern operations during the next five-year permit term.

In testimony before the agencies, RDC said it is important that permit conditions be technically and economically achievable. RDC noted there are a number of conditions in the proposed permit that are of concern to industry. All of these conditions add to the costs of operation and reduce the period of time that Cook Inlet facilities will continue to meet economic thresholds for operation.

RDC encourages its members to support renewal of the permit under the existing regulatory regime with improvements directed at making monitoring more efficient. Please see RDC's Action Alert at [www.akrdc.org](http://www.akrdc.org).

## RDC SUPPORTS OCS PROPOSAL

RDC submitted comments to the federal Minerals Management Service last month supporting the draft proposed program for Outer Continental Shelf oil and gas leasing for 2007-2012.

"The proposed Alaska sales should move forward in a strong regulatory regime that protects the environment, other resource users and traditional ways of life," RDC noted. "Any leasing plan should consider conflict avoidance measures to minimize impacts to other resource industries and subsistence harvesters. Reasonable stipulations to protect scientifically-verified, environmentally-sensitive areas should be incorporated into the plan."

The oil and gas industry in Alaska and elsewhere has proven its ability to produce energy in an environmentally-safe and efficient manner. OCS development has an outstanding safety and environmental record spanning decades. Development has coexisted with other industries, including fishing, in the North Sea, Gulf of Mexico and Cook Inlet.

RDC encouraged the federal government to include revenue sharing with states and local communities in its leasing plan.

Alaska's offshore contains reserves estimated at 27 billion barrels of oil and 132 trillion cubic feet of natural gas. The Chukchi Sea is considered the most promising offshore petroleum basin in the U.S. Expanded access to Alaska's offshore would significantly improve the nation's domestic energy situation, diversify production outside the hurricane-prone Gulf of Mexico and provide economic stimulus to local communities and the state.

## HELP DEFEAT CRUISE SHIP INITIATIVE

RDC is requesting its members help to defeat the Cruise Ship Initiative that will be on the ballot in August. If this initiative passes, it will have an impact on businesses and individuals across the state. The jobs provided by the industry, the tax revenue it produces, and the local businesses it helps to sustain would be hurt by a decline in cruise line tourism. To learn more, please visit the RDC website: [www.akrdc.org/alerts/2006/cruiseship.html](http://www.akrdc.org/alerts/2006/cruiseship.html).

## YUKON FLATS EXCHANGE MAKES SENSE

RDC expressed its strong support last month for the proposed land exchange between the U.S. Fish and Wildlife Service and Doyon Limited.

The land exchange increases not only the amount, but the quality of federally-managed lands within the Yukon Flats refuge while providing Doyon with expanded economic opportunities. The net effect of the proposed trade is an increase to the refuge of 98,000 acres of fish and wildlife habitat. The exchange involves only three percent of the land within the 9 million acre refuge and does not include what is widely considered the biological heart of the area.

The exchange would consolidate land ownership within the refuge, reducing the likelihood of future conflicts between government and private inholders. It would also allow Doyon to consolidate its holdings within the refuge so it can improve the economics of drilling for oil and gas. The entire flats show favorable signs of oil and gas, but the highest potential lies under land proposed for the exchange and adjacent to Doyon lands.

If oil and gas is discovered, many benefits would be generated to the state. Discoveries would also allow for the creation of a long-term economic base in an economically-disadvantaged area of rural Alaska.

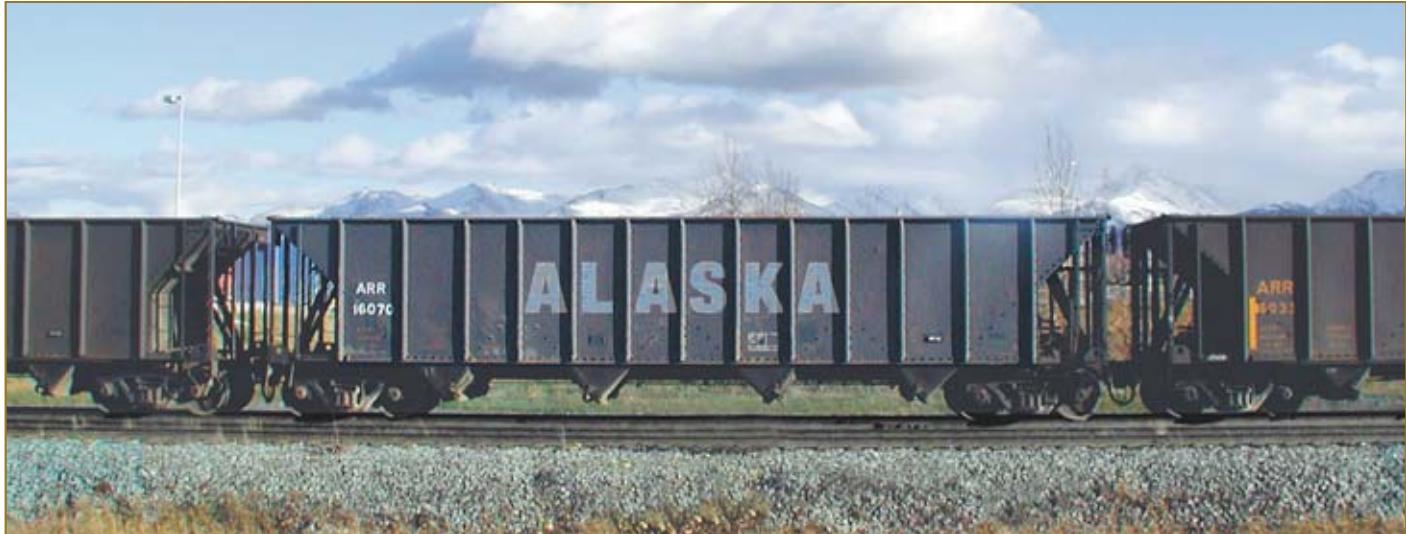
## NEW DRAFT OUT ON PARK ACCESS GUIDE

The Alaska Region of the National Park Service has released the second draft of "A User's Guide to Accessing Inholdings in a National Park Service Area in Alaska" for public comment through May 27.

Within Alaska's national park units, there are more than 1.6 million acres of land owned by private individuals and corporations, the state and local governments. These owners and other valid occupants are entitled to adequate and feasible access to their property, but the process of obtaining legal access across public land has never been well described in a single document.

In 2005, the Park Service released a draft user's guide to help landowners and others understand the process to authorize access across park areas. The release of the second draft follows commitments made in public meetings for additional review before a policy document is finalized.

Copies of the guide are available online at:  
[parkplanning.nps.gov/](http://parkplanning.nps.gov/)



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