

RESOURCE *review*

akrdc.org

A periodic publication of the Resource Development Council for Alaska, Inc.

June 2010



Alberta's oil sands could hold the key to U.S. energy security

Two energy realities face the United States in the 21st century: worldwide demand for energy is forecasted to grow 50 percent by 2030 and fossil fuels will continue to be the dominant energy source, accounting for over two-thirds of global consumption decades from now.

Canada is positioned to play a major role in supplying the U.S. and other energy-hungry nations with the fuels they need to power their economies. The western province of Alberta ranks second only to Saudi Arabia in proven energy reserves. Most of these reserves are found in the oil sands.

Until recently, Alberta's northern oil sands near Fort McMurray were considered too remote, too difficult to extract, and too expensive to produce. However, new technology and higher oil prices have transformed these massive deposits into economically viable fields that may hold the key to North American energy security.

Developing this resource, however, has released a wave of controversy and concerns about the environmental impacts of development on such a large scale. The



In the mining process, every day about 500,000 tons of oil sands are mined using shovels with buckets that hold 100 tons. The ore is transported for processing by some of the world's largest trucks. The remaining material is stockpiled and used in reclamation efforts. The photo above shows a new diverse forest rising over a previously mined area.

oil sands are receiving international scrutiny as governments consider adopting climate change regulations and treaties. The Alberta government and industry are well aware of the strong opinions in the U.S. and around the world on development of the oil sands and understand that energy resources must be produced in a responsible manner.

RDC Deputy Director Carl Portman recently visited the oil sands with Commissioner Larry Hartig of the Alaska Department of Environmental Conservation and 30 others from western states to learn about the oil sands, what they mean for U.S. energy security, and the steps Alberta and

industry are taking to mitigate impacts.

The visitors were exposed to Alberta's vision for developing one of the world's largest deposits of oil. They also learned about legislation and policies that protect water, air, land, and ecosystems in the oil sands region.

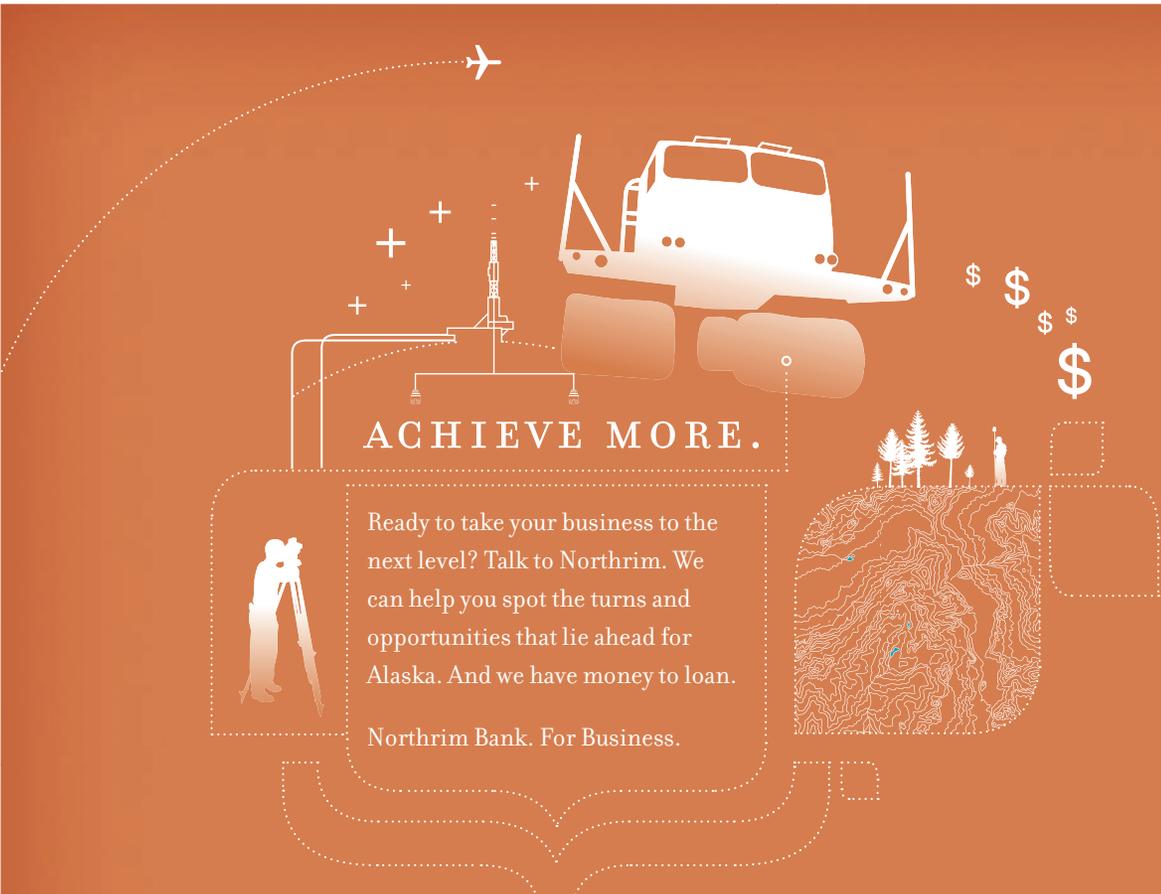
Canada is the top supplier of oil to the U.S., supplying more than 2.4 million barrels per day. Of this, more than 1.3 million barrels of crude oil comes from the oil sands. Canada's oil reserves are the second largest in the world. Of 178 billion barrels in reserves, 97 percent are located in the oil sands.

(Continued to page 4)

In This Issue

Alberta's oil sands	1,4-5
Message from Executive Director	3
Gas pipeline update	6
Shell remains focused on OCS	7
Teck to develop Aqqaluk	8
State targets beluga whale listing	9
Steller sea lion protections	10
Industry digest	11

This edition sponsored by: CH2M HILL & Northrim Bank



ACHIEVE MORE.

Ready to take your business to the next level? Talk to Northrim. We can help you spot the turns and opportunities that lie ahead for Alaska. And we have money to loan.

Northrim Bank. For Business.



Northrim Bank

northrim.com

Resource Development Council

121 W. Fireweed, Suite 250
Anchorage, AK 99503
(907) 276-0700
e-mail: resources@akrdc.org
www.akrdc.org

Material in this publication may be reprinted without permission provided appropriate credit is given. For additional information, contact Carl Portman at cportman@akrdc.org.

Executive Committee Officers

President
Sr. Vice President
Vice President
Treasurer
Secretary

Wendy Lindskoog
Phil Cochrane
Stephanie Madsen
Tom Maloney
Len Horst

Staff

Executive Director
Deputy Director
Membership Director/
Projects Coordinator
Projects Coordinator

Jason Brune
Carl Portman
Deantha Crockett

Marleanna Soto

The Resource Review is the official periodic publication of the Resource Development Council (RDC), Alaska's largest privately funded nonprofit economic development organization working to develop Alaska's natural resources in a responsible manner and to create a broad-based, diversified economy.

Past issues of the Resource Review (1978-2010) are available at akrdc.org.



The amazing power of a simple pen

"I gave her my heart, and she gave me a pen."

—Lloyd Dobler referring to Diane Court in the movie *Say Anything*.

A simple ballpoint pen has tremendous significance and power in the making of laws in the state of Alaska. I recently was invited to attend the signing of HB36, the Open and Transparent Initiative Act, with Governor Sean Parnell at a ceremony in beautiful, but rainy, Ketchikan. Given the impact initiatives have had on RDC members over the last five years, passage of this legislation is one of the most important successes we can claim of late. Indeed, much work was done by the bills' cosponsors, Representatives Kyle Johansen, Charisse Millett, and Peggy Wilson as well as by the bill's lead staffer Sonia Christensen of Rep. Johansen's office. Upon completion of the ceremony, I was given one of the pens Governor Parnell used to sign the bill into law. It was quite a symbolic gesture.

This very piece of legislation was put in place to track, among other things, the amount of money that is spent in the efforts to get people to pen their signatures to put initiatives onto the ballot. Significant, but up until now, undisclosed sums of money were spent by anti-cruiseship, anti-mining, and anti-oil industry interests, as well as others to try to get things on the ballot without letting Alaskans know how much money was actually spent in their efforts. How many Outsiders were brought up to hold stacks of pens and signature booklets has been unknown. This is no longer the case and I am grateful for the Legislature's and Governor's efforts to bring more openness and transparency to Alaskans.

By contrast, a pen may also be used by Alaska's governor to line item specific things out of the capital or operating budgets. After the 90-day legislative session, RDC and numerous other Alaskan groups, Native Corporations, businesses, and individuals wrote to Governor Parnell requesting he veto a \$750,000 appropriation for the Legislative Council to conduct an independent study of the potential large mine development in the Bristol Bay drainage, a study that appears to wrongfully target one industry, and Pebble in particular. We argued that funding such a study will set a dangerous precedent for resource development projects across all industries in the state. Alaska's permitting system is among the most stringent in the world and companies have invested millions of dollars in this state with the understanding that they will be afforded the opportunity to navigate the rigorous permitting process in a manner that is both fair, and consistent for all.

Unfortunately, Governor Parnell did not use his pen to veto this item. In his letter to RDC outlining his reasons, Governor Parnell stated, "In evaluating applications to State agencies for permits to develop our state's resources, my administration remains committed to following Alaska's permitting laws and regulations. There is no study that will change that – only deliberate action on the part of the legislative or executive branch, or both, can change the permitting



In Ketchikan, Governor Sean Parnell signs HB 36, the Open and Transparent Initiative Act. From left to right are Senator Dennis Egan, RDC Executive Director Jason Brune, Representative Charisse Millett, and Representative Kyle Johansen. Passage of HB 36 goes a long way to achieving openness and transparency in the ballot initiative process.

system." A complete copy of his letter is found on our website at www.akrdc.org/legislature/. Though I do not agree with the Governor's justification, I very much appreciate that he took our letter into consideration in his decision making process, ultimately penning a response to RDC justifying his action.

Each of you also has the power to use *your* pen (or keyboard) to write comment letters when RDC sends you action alerts. Without your voice, local, state, and federal policy makers will make their decisions without your input. The true benefits of a project may never be known if RDC members choose not to participate in the many public comment periods we are afforded. Indeed, when your pen remains silent, bad policy may in fact result, and ultimately responsible resource development projects likely won't come to fruition. As I've said oftentimes before, you reap what you sow.

Further, as we embark on campaign season, each of you also can use the power of your pens to write checks to candidates you support. You can also write checks to Political Action Committees such as the State Chamber's Alaska Business PAC (ABPAC), the Alaska Miners Association PAC (AMAPAC), the Associated General Contractors of Alaska PAC (AGCPAC), and others. This is your constitutional right, and with rights, come responsibilities. Willy nilly opening of your checkbooks to everyone that is running in a campaign, in my opinion, is not doing justice to this responsibility.

I encourage you and all RDC members, to use the pens you have been given to help shape the future of Alaska, and indeed, this nation. Otherwise, we could end up like Lloyd Dobler and only have a pen full of ink (and a government full of red ink) to show for our inaction.

Oil sands production could double in next decade

(Continued from page 1)

The resource

Alberta contains the largest concentration of oil sands in the world. Three major areas in the province contain approximately 1.7 trillion barrels of bitumen in place. Proven measures indicate there are 173 billion barrels of recoverable oil in the sands. However, technological breakthroughs could increase the reserve base to more than 500 billion barrels, putting Canada above Saudi Arabia in oil reserves. In 2008, production reached nearly 1.5 million barrels a day through 87 producing oil sands projects in Alberta. By 2020, production could increase to 2.5 to 3 million barrels per day.

In comparison, North Slope production has fallen to 650,000 barrels per day from a peak of 2.1 million barrels in the late 1980s. Alaska production is expected to fall more than six percent annually over the next several years before stabilizing, then falling sharply in the latter part of this decade. A U.S. Department of Energy report estimates the ultimate recoverable oil reserves on the North Slope to be 22.2 billion barrels, including reserves from existing fields as well as undiscovered resources. Offshore in the Chukchi and Beaufort Seas, the Minerals Management Service estimates there is up to an additional 27 billion barrels of oil.

The government of Alberta owns the oil sands resource, while industry purchases the right to explore for, extract and develop the resource. Industry pays royalties back to Alberta and in recent years the province has collected approximately \$2.4 billion annually in royalties from oil sands production.

From oil sands to consumer

Oil sands are a mixture of bitumen, sand, water, and clay. Bitumen is a heavy type of petroleum that will not flow unless it is heated or diluted. At room temperature it acts much like cold molasses. Because it does not flow like conventional crude oil, it must be mined or heated underground before it can be recovered for processing.

Bitumen is recovered in two ways. For oil sands near the surface, about 500,000 tons are mined each day using huge mechanized shovels with buckets that hold 100 tons. The ore is transported in some of the world's largest trucks, carrying 400 tons per load, to



Crushers and sizers break up the ore for delivery to the extraction plant.

crushers and sizers, which break up the ore for delivery to the extraction plant. At this facility, the sand is mixed with warm water to separate the bitumen and prepare it for upgrading. The tailings (water, clay, and sand) are pumped to holding ponds where they are treated and prepared for reclamation.

For oil sands further beneath the surface, extraction occurs by in-situ methods. The most common separates the bitumen from the sand underground using steam to heat it to a point that allows it to be pumped by a well to the surface. In-situ processes have a much smaller surface footprint, as they use about 15 percent of land disturbed by mining and do not produce tailing ponds. Approximately 80 percent of Alberta's recoverable oil sands will be extracted through in-situ production. In the in-situ process, the recovered bitumen is sent by pipeline to the upgrading facility. The process does not require extraction as separation occurs in the ground.

During the upgrading process, the bitumen is heated and sent to drums where excess carbon is removed. The superheated hydrocarbon vapors are sent to facilities called fractionators where vapor condenses into naphtha, kerosene, and gas oil. These products are then blended into synthetic crude oil and diesel fuel. The synthetic oil is then shipped by pipeline to refineries throughout North America where it is further

processed to produce a range of consumer and industrial products.

Environmental issues

The Canadian oil sands have been a target of environmental groups for years, but Alberta is working hard to prove that environmental protection and economic development can occur at the same time. The provincial government has passed legislation and implemented policies involving land reclamation, water use, air quality, and ecosystem health. Current production methods mean that more energy is needed to extract oil from the sands compared to conventional oil. But the gap is closing with technology, reducing the energy and environmental impact of oil sands recovery.

Yet the perception of oil sands development is one of massive emissions and land disturbance. In reality, the oil sands account for less than five percent of Canada's greenhouse gas emissions and less than one-tenth of one percent of total global emissions.

Overall, the oil sands carbon footprint is only about 5 to 15 percent higher than most crude imports consumed in the U.S. On a "wells-to-wheels" basis, the life cycle emissions from oil sands crude are comparable to the average imported crude oil consumed in the U.S. In the case of Venezuelan crude, Canadian oil sands crude



At left, raw bitumen is separated from the sand, water, and clay at the extraction plant to prepare for upgrading. At right, the in-situ process uses steam assisted gravity drainage technology to inject steam into the oil sands and collect the bitumen released by the heat. The recovered bitumen is sent by pipeline to the upgrading facility. The process does not require extraction as separation occurs in the ground.

is actually less carbon intensive.

With regard to land disturbance, the potentially mineable area in the oil sands represents only a small fraction of the boreal forest, where the sands are located. In more than 40 years of oil sands mining, only one-hundredth of one percent of the Canadian boreal forest has been disturbed. This disturbance is equivalent to an area approximately the size of the Kennedy Space Center in Florida. Meanwhile, strict reclamation standards require the land to be able to support a range of activities similar to its previous use before oil sands development. Work is underway to return disturbed land to a natural state and companies have planted more than 7.5 million seedlings toward their reclamation efforts.

In 2007, Alberta became the first in North America to legislate mandatory greenhouse gas reductions for large industrial facilities. Carbon dioxide emissions have been reduced by 45 percent per barrel of oil since 1990.

In 2008, the Alberta government laid out a new climate change plan for the province. The plan's target is to reduce greenhouse gas emissions 50 percent from expected levels by 2050 and will lower emissions to an equivalent of 14 percent below 2005 levels. The plan recognizes that emissions will rise in the short term until 2020, but as new technology is employed, emissions will fall. By 2050, Alberta's climate change plan will reduce projected emissions by 200 million tons, which is the equivalent of taking 42 million vehicles off the road each year. So far, industry has reduced emissions by 2.6 million tons, equivalent to taking 550,000 cars off the road.

Carbon capture and storage, energy

conservation, and greening energy production are keys to the reduction plan. Carbon capture and storage, which is at the heart of the plan, is a process that captures carbon dioxide emissions and stores them in geological formations deep inside the earth. The same unique geology that developed the abundance of hydrocarbons in Alberta also makes it ideally suited to permanently store carbon dioxide.

In July 2008, Alberta committed \$2 billion to kick-start carbon capture and storage projects in Alberta, and wide-scale implementation is anticipated as technology advances. Up to five million tons of carbon dioxide per year is expected to be captured and permanently stored by 2015. Meanwhile, industry is contributing more than \$40 million into a research fund to advance technology and reduce emissions.

Politics & energy security

Some western states such as California are pondering measures to penalize Alberta's crude under a low-carbon fuel standard, including threats to ban imports of crude from the oil sands. The Canadians strongly object to such barriers, warning they would amount to unjustifiable discrimination against Alberta energy. Provincial government officials insist that attacks on the oil sands have been wildly exaggerated by people and groups who have their own agenda.

The Alberta government has been hosting delegations from across the U.S. to get the message out about the enormous economic and energy potential of the oil sands, as well as the major steps government and industry are taking to responsibly develop the resource. They emphasize there is no need to make a choice between energy development

in the oil sands and the environment.

If the U.S. rejects oil sands energy, the Canadians are prepared to send their oil to other nations like China, which has ever-increasing interest in oil sands projects.

With its enormous potential, the oil sands are a geopolitical game-changer for both Canada and the U.S. The recoverable reserves alone are enough to supply every drop of oil the U.S. needs for the next 23 years – if the sands could be fully developed over that period of time, which is not practical. However, when combined with new potential production from the OCS and Alaska, the oil sands could free America from its reliance on oil imports from overseas. Strategically, the sands could hold the key to North American energy security, providing a safe, stable, secure supply of energy.

Economically, every dollar invested in the oil sands creates about \$9 worth of economic activity globally. Over the next five years, oil sands production could create an estimated 343,000 new jobs in the U.S. Oil sands demand for American goods and services could contribute \$34 billion to the U.S. Gross Domestic Product in 2015 and up to \$42 billion by 2025.

In 2007, industry invested \$16 billion in oil sands projects. Since 2000, \$87 billion has been invested in developing the sands.

Given the strides Alberta and industry have made in oil sands development and the major efforts underway to further mitigate environmental impacts, Canadians point out that it would defy reason for the U.S. to block or limit energy from the oil sands, when the nation is so heavily reliant on imports from overseas.



Open season: silence does not mean failure

I cannot tell you an Alaska gas line to the Lower 48 will be built this decade. But I can assure you it is not dead; shale gas has not driven a silver stake through the project; the market has not forgotten us, though it is not paying as much attention as we would like.

That could change.

The natural gas share of U.S. electrical generation doubled between 1990 and 2009, climbing from 12 percent to 23 percent. It's that trend in power generation that gives me hope for an Alaska pipeline. Cambridge Energy Research Associates forecasts another doubling in gas demand from electrical utilities by 2030.

A new, combined-cycle gas-fired power plant emits one-third as much carbon dioxide as the average U.S. coal-fired plant. The natural gas industry is looking to capture future growth in generating capacity and the conversion of older coal-fired plants ready for retirement. That is the best hope for an Alaska gas line.

The president's energy policy is built in great part on cleaner-burning natural gas and domestic sources for that gas. I have met with the president's top energy advisor and senior White House staff, and I can tell you the president supports the Alaska pipeline and wants his staff to look for ways the federal government can help bring the players together for success.

Among the pieces that have to fall into place is price stability. No utility is going to build a gas-fired power plant if it doesn't know what its fuel costs will be. Utilities like stability; their customers like stability; but the gas market has been anything but stable in the past decade.

Shale gas is changing that. The new supplies coming online are making gas buyers feel more comfortable that years of price volatility are over. Alaska gas may be able to grab a share of the demand growth so long as our gas can be delivered for the market price — nothing more.

This year's two open seasons to solicit shipper interest in the Alaska gas line will tell us how the market views the project. One open season closes the end of July; the other is expected to close in early October. Unlike oil and gas lease sale bids, the envelopes will not be opened to the public the minute after bidding closes. The pipeline developer and



"I have met with the president's top energy advisor and senior White House staff, and I can tell you the president supports the Alaska pipeline and wants his staff to look for ways the federal government can help bring the players together for success."

potential shippers will enter closed-door commercial negotiations.

Those negotiations could last months, without a word publicly of what's going on. Alaskans need to understand silence does not mean failure, it just means there isn't any immediate good news. The open season is just a step in the process.

The project is costly beyond anything ever attempted by the private sector, and competition from shale gas will make the margins tight. North Slope producers, pipeline owners, and the state may have to accept less profit from the gas than they would like. Everyone at the table will have to acknowledge the risks and share in them.

Meanwhile, U.S. and Canadian officials are making plans for the permit applications they hope will be filed, getting together to identify problems and starting to solve them now, not later. The Office of Federal Coordinator is ready, too.

In addition to bringing together agencies to ensure that permit applications proceed smoothly, we are completing a geographical information system (GIS) prototype. We shot a 20-mile-long section in the Atigun Pass using aerial light detection and ranging technology to create an authoritative base map. We layered an incredible amount of data to show terrain, geology, cultural sites, ground cover, water and more. Ultimately, I would like our office to provide such detailed mapping from the North Slope to the Canadian border.

The Alaska Natural Gas Pipeline Act of 2004 that established the Office of Federal Coordinator is clear: The office is to assist in a pipeline that brings North Slope gas to the Lower 48. An exclusively export project is not entitled to the federal loan guarantee of the 2004 law or permitting assistance.

I know, however, that many Alaskans are

more enthusiastic over shipping Alaska LNG to Asia Pacific markets. But selling a big load of Alaska LNG into the market would be extremely difficult.

Alaska gas has a lot of low-cost competition in the Asia Pacific market — Australia, Papua New Guinea, Indonesia, Malaysia, Russia and Qatar — none of which need a multibillion-dollar 800-mile pipeline to get their gas to a liquefaction plant.

For those who look at past, high-value long-term LNG contracts in Asia, look again. Spot market and lower-priced short-term sales contracts now comprise almost 20 percent of the Asia Pacific LNG trade — and growing.

The bigger market is at home. North America consumes three times as much natural gas in an average day as Japan, Taiwan, China, South Korea and India combined.

I also would like to comment on the push to build a smaller pipeline to serve Alaskans. While I understand the frustration that led to the proposal, I caution Alaskans to be careful. A large pipeline moving gas out of state is Alaska's best bet for tens of billions of dollars in tax and royalty revenues, the availability of gas for in-state use and the lowest tariffs for in-state deliveries. Anything else comes up short in one of those categories.

ExxonMobil, BP, ConocoPhillips and TransCanada have spent about \$400 million total since 2000 to look at the viability of the gas line. They're still looking, still spending.

Wait for the open seasons to close, wait for the commercial negotiations that will follow. Wait to see what the producers ask of the state. Wait to see what the White House can do to help.

If it doesn't work, I'll be the first to admit it. But it's worth waiting just a little bit more.

Shell remains confident in its Alaska OCS drilling program, Alaskans object to delay

Shell said it will continue to focus on future exploration in the Alaska OCS, despite President Obama's decision to put drilling permits on ice. Meanwhile, Alaska's governor and congressional delegation blasted the President's decision to postpone offshore oil and gas exploration in the shallow waters of the Chukchi and Beaufort Seas for at least one year.

Shell was set to drill three wells this summer in the Chukchi Sea and two in the Beaufort Sea after its 2010 drilling program cleared major hurdles and court challenges this spring. The company, which was hoping to drill in previous summers but was forced to pull back, will be unable to drill until next summer at the earliest, and the most recent delay has the potential to cost the energy giant hundreds of millions of dollars.

Shell will "work closely with the government and other experts during this suspension in drilling activities," said Pete Slaiby, the head of the company's Alaska office.

"We respect and understand today's decision in the context of the tragic spill in the Gulf of Mexico, but we remain confident in our drilling expertise, which is built upon a foundation of redundant safety systems and company global standards," Slaiby said. "Our drilling plans have undergone an unprecedented level of review, including scrutiny from the courts, regulators and stakeholders," he said.

The company spent more than \$2 billion in February 2008 to acquire federal leases in the Chukchi Sea and has spent more than a billion dollars to prepare for drilling.

U.S. Secretary of Interior Ken Salazar said the White House put a freeze on offshore drilling in the Arctic until after the findings are released from a presidential commission studying the gulf spill. The commission will look for weaknesses in the offshore plan that the Deepwater Horizon rig was operating under up to the time of its explosion in April. The commission is expected to recommend measures to prevent a similar incident from happening again.



Shell mobilized its drilling fleet in 2007 for Arctic exploration, but was forced to pull back. Once again its plans have been halted as the federal government put a freeze on new OCS drilling in the Arctic.

Senator Mark Begich expressed disappointment with the one-year postponement in Alaska offshore drilling and said Shell's plans for the Arctic were a direct casualty of the gulf spill. "We have worked with them to meet the standards that the agencies have required of them," Begich said. "They have moved through litigation, and most recently at the request of the administration, increased their safety efforts in order to reassure the administration that they were going far beyond what was required of them," Begich said.

Senator Lisa Murkowski feared the administration's move was a "backhanded way to kill offshore development in Alaska." "If the delay is for a season to ensure we have the highest levels of protection in place, that's one thing," Murkowski noted. "But if it means that existing permits are allowed to lapse – effectively killing Shell's participation in Alaska – that's not acceptable to Alaska."

Congressman Don Young called the delay a knee-jerk reaction to the hysteria of public interest groups opposed to oil and gas development. "The kind of event that happened in the gulf, while tragic, is so

uncommon," Young said. "It is akin to an American jetliner crashing. If a plane goes down, we don't stop flying. We figure out what went wrong and correct the problem."

Governor Sean Parnell said the decision was based more on fear than science. "I simply cannot understand how the federal government could approve plans of exploration only five months ago – approvals that were upheld in the Ninth Circuit Court of Appeals – but now refuse to take the final step in a long regulatory process and not authorize Shell's permits to drill," Parnell said. "Shell's leases should be extended, and they should be able to continue seeking permits."

Alaska's state and federal leaders note conditions in the shallow waters of the Arctic are materially different from those encountered in the extreme deepwater Gulf of Mexico. They also point out Shell's prevention and response plans meet or exceed stringent requirements to operate in Alaska.

Alaskans are concerned that the delay could extend beyond one year. If the deferment turns into a permanent ban, it would stifle any future development and have a significant impact on the economy. Development and production would create thousands of jobs and generate revenue for federal, state, and local governments. Moreover, OCS development represents the best hope for extending the life of the Trans-Alaska Pipeline System. Even though the pipeline is operating at only one-third capacity, it is a vital artery supplying 25% of the West Coast's oil.

According to a University of Alaska study, production from the Alaska OCS would sustain Alaska's economy for decades and create 35,000 new jobs in the state. It would also provide a major domestic source of oil and gas to help meet the nation's energy needs and ease the country's nearly 70 percent dependence on foreign sources. Over the long-term, Alaska production could generate hundreds of billions of dollars in revenues to the state and federal government.



Teck Alaska has begun preparing the Aqqaluk deposit site for development. Part of the main pit and mill facilities at Red Dog are visible in the background.

Red Dog to proceed with mining Aqqaluk

Teck Alaska will proceed with the development of the Aqqaluk Deposit at its Red Dog Mine in Northwest Alaska. Teck's decision to proceed with Aqqaluk follows discussions with the U.S. Environmental Protection Agency (EPA) concerning the status of the renewal of Red Dog's main water discharge permit, and an internal review of the company's operating plans for the deposit.

"Our discussions with EPA have been constructive, and after carefully considering the environment, our employees, and local communities, we are proceeding with Aqqaluk," said Mike Bonneau, General Manager of Teck Alaska. "We will continue to maintain a water discharge that is protective of water quality and the environment."

Bonneau pointed out that Teck has the necessary permits and authorizations in place to develop Aqqaluk. In 2010, a supplemental environmental impact statement (SEIS) conducted by EPA concluded that the proposed discharge limits contained in a new water discharge permit for Red Dog were protective of the environment.

However, there is an outstanding administrative appeal of certain conditions of the new water discharge permit. In response to the appeal, EPA has withdrawn five contested limitations in the permit and has stated its intent to conduct an updated permit proceeding once certain procedural matters are addressed.

The appeal of the 2010 water discharge permit and the withdrawal of the contested limits do not affect the Aqqaluk development, Bonneau said.

Until the appeals of the 2010 water discharge permit are resolved, and EPA's proposed 2010 permit limits are in full effect, Teck will be subject to the applicable limits in its 1998 permit. As previously disclosed, these limits include a standard on total dissolved solids which cannot feasibly be met through any existing treatment

technology at the volumes being discharged. Teck will discharge water in accordance with the court-approved interim discharge limits contained in a 2008 settlement agreement, which correspond to the limits found in the SEIS to be protective of the environment.

Bonneau believes there is a viable plan in place to resolve the 2010 permit appeal and will continue to work with regulators moving forward.

Teck has already developed plans for the initial work on the deposit, which got underway in late May.

"I would like to acknowledge and thank each and every one of Red Dog's Teck, NMS and NANA/Lynden employees for their patience and understanding during this difficult period," Bonneau said. "It demonstrated a strong and committed workforce that they should be proud to be part of."



An aerial view of the Red Dog Mine shows the mill facilities, the ore pit and the tailings pond. The Aqqaluk deposit is adjacent to the main pit.

Alaska files suit challenging Cook Inlet beluga ESA listing

The State of Alaska has filed suit against the federal government to challenge the listing of Cook Inlet beluga whales as endangered under the Endangered Species Act (ESA).

“It is with a sense of frustration, but also with our resolve to uphold the interests of Alaska, that we’re filing suit to hold the National Marine Fisheries Service (NMFS) accountable to its own rules and regulations,” said Attorney General Dan Sullivan. “We presented a strong case during the public review process that there is no need to list this species as endangered because of the stabilization of the beluga population and the protection measures already in place. However, despite the validity of the concerns we raised, our comments were discounted or ignored in the federal decision-making process. At a time when we are seeing an increasing use and abuse of the ESA, it is imperative that federal agencies abide by the letter of the law in making ESA designations.”

Sullivan said the Department of Law took significant time to review substantial information about how the endangered listing was reached, and reviewed and analyzed the legal requirements for listing the whales under the ESA. “We believe that the agency didn’t adequately consider listing the whales as threatened, rather than endangered, rejecting an alternative designation that could have dramatically reduced impacts on our economy.”

The Parnell administration also has submitted comments expressing concern about the proposed designation of critical habitat for Cook Inlet belugas, which threatens to stifle economic activity and potentially even affect national security.

“We have been working with interested stakeholders to make sure that federal regulators understand how potentially crippling the proposed critical habitat designation would be to our economy,” Sullivan said. “It is our hope to work cooperatively with the NMFS towards this end. When the final rule is issued, we will take a hard look and carefully weigh our options.”

Doug Vincent-Lang, the state’s endangered species coordinator, noted the state supports the use of the Endangered Species Act to protect species that are at immediate risk of extinction, including the North Pacific right whale, a stock whose numbers he said clearly demonstrate an immediate risk of extinction, and the associated designation of critical habitat. “However, we do not believe that the listing of the beluga whale as endangered is warranted at this time,” Vincent-Lang said. “We simply do not accept that the projected risk of extinction for this stock, which NMFS estimates to be less than 1 percent over the next 50 years, warrants an endangered listing.”

The attorney general said the ESA is a well-intentioned and useful law. “However, in recent years it has been subject to abuse, and we believe that federal agencies do not always fulfill all of the law’s requirements,” Sullivan said. “Federal actions taken under the ESA can have significant negative consequences for Alaska’s economy, so we’ve developed a five-part strategy to minimize those consequences.”



An independent study commissioned by RDC earlier this year revealed that the economic impact of proposed critical habitat designations for the Cook Inlet beluga whale could range from approximately \$40 million to \$400 million annually.

Sullivan summarized the strategy as follows:

1. Taking action to avoid unwarranted listings by performing ongoing research and monitoring of wildlife populations, reaching pre-listing agreements when possible, and challenging the legal basis for listing decisions when appropriate.
2. Engaging federal officials through programs that provide for a deeper exchange of information. Such cooperation is needed because Alaska state officials are often better informed and have more scientific data about Alaska species than the federal officials who make the final ESA determinations.
3. If a listing does occur, working to shape the critical habitat designation and the recovery plan to minimize adverse impacts to Alaska’s economy.
4. Seeking to down-list and de-list species when the data shows that they are no longer in danger of extinction and they have met their recovery objectives.
5. Continuing efforts to raise public awareness about the ESA and to develop alliances with other states to influence ESA policy so it cannot be used as a tool to shut down natural resource development and economic opportunity.

“Thanks to the Legislature’s approving \$1 million in funding specifically for ESA-related work, we are making progress in implementing this strategy,” Sullivan said. “We will continue working to ensure that the ESA does not stifle the development of our natural resources, impede our traffic and commerce, or threaten the economic future of our citizens.”

The state’s complaint, filed in the U.S. District Court for the District of Columbia, can be found at: <http://www.law.alaska.gov/pdf/press/060410-complaint.pdf>

The state’s ESA strategy can be found at: http://www.law.alaska.gov/pdf/press/060410-ESA_Strategy.pdf

RDC’s comments on the proposed critical habitat designations, as well as its economic impact analysis of those designations can be found at: <http://www.akrdc.org/issues/other/esa/belugas/>



Sea lion protections threaten communities, Southwest Alaska fishing industry

People might wonder what sea lions have to do with senior centers and after school programs. If you live in a coastal community in Southwest Alaska, you would know they are tightly entangled. How? Overly stringent federal rules intended to increase sea lion numbers in Western Alaska can deep-six a town's budget faster than you can say "man overboard."

Next month longtime fishing communities like Unalaska/Dutch Harbor, Kodiak, Akutan, King Cove, and Sand Point will finally know if new sea lion protective measures might scuttle their cities' future operating and capital budgets. That is when federal overseers are scheduled to unveil a long overdue and highly guarded new "biological opinion" on the wellbeing of Steller sea lions throughout the westward region.

The population numbers of Western Alaska sea lions began to decline sharply in the 1980s, and the animals were listed in 1990 by the federal government as a threatened species. No scientific connection has ever been made between commercial fishing and the dwindling number of sea lions, but that listing forced a patchwork of closures and no-fishing zones anywhere near sea lion rookeries and haul-outs throughout the Aleutian Islands and Bering Sea.

In 2000, lawsuits by environmental groups led a federal court in Washington state to order a shut-down of all fishing in sea lion "critical habitat" areas. With the stroke of a far away pen, Alaska trawlers, longliners, and pot boats were displaced up to 20 miles from traditional fishing grounds, and some fisheries in the Aleutian Islands were cut off

"What worries us most is that the sea lion decision may be an appeasement to litigation threats by conservationists who want more restrictive measures to protect the 'threatened' animals, even when the collected science of the past 10 years does not support a finding that commercial fishing is a cause of their decline."

completely. The resulting estimated losses to fishery-dependent communities topped \$200 million. Thankfully, the shutdown was lifted after the first season, and the Steller sea lion regulations left in place were not as egregiously negative and destructive to these communities, so we were able to adapt somewhat over time.

For most fishery-dependent communities, the seafood industry is not only our primary business – it is the primary tax base for our local governments to provide services. The immediate and significant loss of revenues resulting from these new sea lion policies immediately affected our ability to take care of our communities' basic needs. City officials and municipal managers scrambled to rework budgets to cover the cost of a lunch program for at-risk elders, an afterschool program for kids whose parents work, or extra funding to clear the snow and keep roads safe during our notoriously ferocious winters.

Since then, published science suggests that sea lion numbers have slowly but steadily increased each year by 12 percent (National Marine Fisheries Service numbers)

in all but one region of the Aleutians. This is very good news, but there is a genuine fear that the new biological opinion might skew to past assumptions, and short weight the latest scientific findings on factors affecting recovery – such as killer whales accounting for 40 to 80 percent of sea lion mortality, or changes in diet due to ocean conditions.

What worries us most is that the sea lion decision may be an appeasement to litigation threats by conservationists who want more restrictive measures to protect the "threatened" animals, even when the collected science of the past 10 years does not support a finding that commercial fishing is a cause of their decline. Once again, communities will be the ones to take the hit, and tragically, policies meant to strengthen sea lion populations will not do so, because they are not targeting the real causes of what appears to be a naturally occurring decline or re-distribution of these mammals.

The Bering Sea fishing industry is an appreciated partner of many successful small communities in Alaska. Here in the heart of the Bering Sea pollock and cod fisheries, we have grown accustomed to building annual city budgets around fisheries that are stable, well-managed, and sustainable. The legitimate concern that our lives and livelihoods could be disrupted again by an inaccurate and damaging new scientific opinion is a bitter pill that won't go down easily.

"Once again, communities will be the ones to take the hit, and tragically, policies meant to strengthen sea lion populations will not do so, because they are not targeting the real causes of what appears to be a naturally occurring decline or re-distribution of these mammals."

Industry digest

RDC Annual Meeting is July 21

Karen Harbert, President and Chief Executive Officer of the Institute for 21st Century Energy, will be the featured speaker at the Resource Development Council's 35th Annual Meeting Luncheon at the Dena'ina Convention Center in Anchorage on Wednesday, July 21. Harbert will address "Our New Energy Reality: Challenges and Opportunities."

Harbert leads the Institute's efforts to build support for meaningful energy action nationally and internationally through policy development, education, and advocacy. Under Harbert's leadership, the Institute has evolved into a premier national and increasingly recognized international organization dedicated to advancing a constructive energy agenda and transforming the energy and environmental debate into a widely supported plan of action.

Harbert, who frequently testifies before Congress and provides analysis to the media, policy makers and industry leaders, is the former Assistant Secretary for Policy and International Affairs at the U.S. Department of Energy. For additional information on Harbert and information on the event, including sponsorship and registration, please visit akrdc.org.

Attorney General asks for new ANWR notice



Alaska Attorney General Dan Sullivan has called on the U.S. Fish and Wildlife Service to issue a new "notice of intent" for its review of the Arctic National Wildlife Refuge's (ANWR) Comprehensive Conservation Plan (CCP), questioning whether the current notice impermissibly excludes public comments on the prospect of oil and gas development in the 1002 area of the refuge.

Sullivan's letter to ANWR Manager Richard Voss followed up on concerns expressed May 11 by Governor Sean Parnell and came as the Alaska Department of Natural Resources also weighed in on defects in the proposed planning process.

The federal agency issued its notice of intent in April to solicit public comments that would address "the desired future conditions of the refuge" and "the full range of purposes." But the notice stated that it will not consider comments related to oil and gas development in ANWR. However, the agency will consider new Wilderness designations, which would block energy development.

In his letter, Sullivan suggested that the notice violates the Service's duties under the Alaska National Interest Lands Conservation Act (ANILCA) and the National Environmental Policy Act (NEPA) because the agency is required by these statutes to evaluate the impacts of oil and gas exploration in ANWR. Disallowing public comments on matters related to oil and gas development in ANWR "likely violates NEPA," he wrote. "We therefore request that the Service issue a corrected Notice of Intent that complies with its legal obligations under NEPA."

Voss also received a letter from the State opposing new wilderness designations.

Meanwhile, RDC submitted comments to the Service in June supporting oil development in the 1002 area and opposing new Wilderness designations. In addition, RDC also testified at hearings in Washington and Anchorage.

To view the comments of RDC and others, please visit akrdc.org.

Golf tournament for resource education



Joe Usibelli Jr. prepares to swing, while his teammates and tournament volunteers look on. For photos of the 18th Annual Coal Classic in support of Alaska Resource Education, visit akresource.org.



Governor signs cruise ship tax bill

On June 24, Governor Sean Parnell signed Senate Bill 312, which reduces the cruise ship passenger head tax. RDC worked with the Alaska Alliance for Cruise Travel (AlaskaACT) and several other organizations throughout the legislative session to communicate the damage caused by the 2006 ballot initiative, which imposed excessive taxes and unfair regulations on the cruise industry.

"The signing of SB312 is a giant step toward making Alaska a more inviting place for the cruise industry to operate, and subsequently, helps the small businesses throughout the state that depend on cruise passengers for their incomes, said RDC Executive Director Jason Brune. "We applaud Governor Parnell and all those who helped make the passage of this bill a reality."



FERC approves Denali gas pipeline open season plan

The Federal Energy Regulatory Commission (FERC) approved the Open Season Plan filed by Denali – The Alaska Gas Pipeline. Denali will commence its open season on July 6.

"We are pleased that the FERC has approved our open season plan," said Bud Fackrell, Denali President. "This approval confirms that Denali's plan is complete and consistent with FERC requirements. We look forward to beginning our open season in July of this year."

The open season process is overseen by the FERC, and is an important milestone in the development of the pipeline project. During the open season, Denali will be soliciting multi-year, multi-billion dollar financial commitments from its potential customers. These commitments are essential to a successful project, and indicate the level of market interest in Alaska's North Slope natural gas.

The Denali Project consists of a gas treatment plant (GTP) on the North Slope, transmission lines from the Prudhoe Bay and Point Thomson fields to the GTP, and a mainline that will cross Alaska and traverse through the Yukon Territory and British Columbia to its terminus at Blueberry Hill in western Alberta. Also included will be delivery points along the route to help meet natural gas demand in Alaska and Canada. Denali's cost estimate for the GTP and mainline is \$35 billion. The Denali open season is expected to end October 4.



RESOURCE DEVELOPMENT COUNCIL

Growing Alaska Through Responsible Resource Development

121 W. Fireweed, Suite 250, Anchorage, AK 99503

ADDRESS SERVICE REQUESTED

PRSR STD
U.S. Postage
PAID
Anchorage, AK
Permit No. 377



Workforce Development in Action



*CH2M HILL students at the King Salmon training facility - April 2010
2009 Employer of the Year by Alaska Department of Labor and Workforce Development*

Through Workforce Development CH2M HILL has been able to recruit and retain skilled labor for our North Slope jobsites, establish relationships with future clients and strengthen our alliance with our current business partners.

Around the world and close to home, CH2M HILL employees provide full spectrum of consulting, program management, design, construction, drilling support and operations solutions that support your project goals and improve quality of life.

Partners in sustainable solutions
ch2mhill.com