

# RESOURCE *review*

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

February 2012



## Tax reform must move the needle to attract the investment necessary to boost production

By Carl Portman

In his State of the State address in January, Governor Sean Parnell repeatedly called for “meaningful tax reform” to Alaska’s oil production tax structure, a top priority of Alaska’s major business associations whose member companies combined employ tens of thousands of Alaskans across all economic sectors of the state.

Parnell said meaningful tax reform would move the needle on attracting the industry investment that is required to stem the accelerating decline in North Slope production and increase production over the long term, leading to higher state revenues and a stronger private sector economy.

The governor insists House Bill 110, which passed the House last year but is unlikely to move in the Senate, would result in significant reform of the tax structure and attract new investment in projects that would put new oil into Alaska’s economic lifeline, the Trans-Alaska Pipeline System (TAPS).

“I’m not looking to increase production by just a couple of thousand barrels or 10,000 or 20,000 barrels,” Parnell said. His



Governor Sean Parnell briefed the RDC Board of Directors in Juneau last month on his administration’s legislative priorities, which included oil production tax reform. Pictured with the governor are Tom Maloney, RDC Board President and Rick Rogers, Executive Director.

goal is to reverse the accelerating production decline and increase TAPS throughput from the current 600,000 barrels per day to one million barrels per day within ten years.

The governor noted that oil companies have already committed billions of dollars in new investments – if the legislature passes meaningful tax reform. He said “significant new investment in oil production would be a game changer for our state – a down payment on Alaska’s future we cannot afford to turn down.”

Reforming oil production taxes has widespread support among Alaska business leaders. At the Anchorage Economic Development Corporation’s (AEDC) annual luncheon last month, attended by over 1,500 Alaskans, it was announced that 72 percent of business executives in the Anchorage area now believe the state’s oil and gas tax structure is negatively impacting North Slope oil production. The poll was included in AEDC’s fourth annual Business Confidence Index Survey of Anchorage businesses and organizations.

“The question before us now is not

whether we have enough oil reserves to meet our goals,” Parnell said. “The question is this: Do we have enough will to give up short-term gains for long-term growth?”

Alaska’s production tax is structured to increase as crude oil prices rise. At high oil prices, Alaska’s tax is among the highest in the world, and that is on top of large Arctic development and operating costs.

Proponents of the oil tax reform want to reduce the tax by changing the “progressivity” formula in the fiscal regime that causes the tax rate to escalate at high prices. As presently structured, there is little upside potential at high oil prices for producers investing in new production. The return to them is about the same at lower oil prices as it is at high prices, an unattractive way for an oil company to invest.

This in large part is why Alaska is not competitive in attracting the investment it should at high prices. With lower costs and taxes, the Lower 48 states are seeing a surge of new investment and Alaska is not.

What form oil tax reform takes may now

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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 (1978-2011) are available at [akrdc.org](http://akrdc.org).



# RDC's legislative priorities targeted to ensure Alaska reaches its potential

Please see RDC's 2012 legislative priorities on page 8

A bright spot among Alaska's resource development industries is mineral exploration. The mining industry is poised to grow, if we can continue to support policies that encourage responsible resource development.

Mineral exploration is ramping up across Alaska. In 2011, \$300 million was spent on Alaska mineral exploration, about a third of total U.S. exploration, a 13% increase from the prior year. In 2011, there were 30 mineral exploration projects that invested over \$1 million, and I expect the 2012 numbers will show another banner year supported by a continuation of strong commodity prices, and the highly prospective nature of Alaska's mineral endowment.

The Donlin Gold Project, with over 42 million ounces of gold reserves, recently announced it is soon commencing permitting after completion of a favorable feasibility study. Other advanced exploration projects in the state include Money Knob at Livengood north of Fairbanks, the polymetallic Niblack prospect on Prince of Wales Island in Southeast, and the Southwestern Alaska Pebble prospect. Recognition of the strategic importance of rare earth elements has bolstered enthusiasm for several occurrences, including the Bokan mountain prospect in Southeast.

The Donlin project alone would provide an estimated 3,000 jobs over the three-year construction period. The capital costs to develop this mine and associated infrastructure is estimated at close to 7 billion dollars. Once operating, 600 to 800 high-paying jobs are anticipated.

If any one or more of these advancing prospects mature to development, they will provide significant benefits to the rural areas where they are located, as well as our urban support centers. Mining benefits both rural and urban Alaska, with 2011 data showing close to even job distribution between the two. These new mines can add to the existing 4,500 direct jobs with an average annual wage of over \$100,000, and the tens of millions of dollars existing mines already contribute to state and local government revenues.

Three of RDC's top legislative priorities are focused on setting an appropriate stage to advance projects in all resource industries that can meet the many environmental standards required to move to development.

First, RDC encourages the state to promote and defend the integrity of Alaska's permitting process and advocate for predictable, timely, and efficient state and federal permitting processes based on

sound science and economic feasibility. There is no surer way to drive investment out of Alaska than by prejudging projects based on media campaigns and fear mongering before they are objectively evaluated in the design and permitting phase. Alaskans must demand vigorous and credible processes to ensure public resources are not adversely impacted from development. RDC is committed to supporting and improving these systems and making sure our state and federal permitting agencies have the needed capacity to do their jobs.

Second, RDC supports efforts to bring more accountability to the appeals and litigation processes for community and resource development projects. While we all recognize the need for the public to challenge decisions of their government when necessary, litigation to delay resource projects has become endemic. There must be more accountability to help curb the abuse of these appeal rights that are often used to frivolously frustrate legitimate development.

Litigation causes delays, lost wages, and other hardships to industry, and while often cases are ultimately thrown out, they are done so only after they have invoked considerable damage. Shouldn't plaintiffs have some skin in the game, and provide bonding to cover lost wages and legal fees when their claims are not justified? While it will not address litigation in federal courts, HB168, introduced by House Resource Co-Chair Representative Eric Feige, will help increase accountability for cases in state courts. Last session this bill passed the House with bipartisan, rural and urban support and is awaiting hearings in the Senate committees of referral.

Finally, in addition to supporting needed revisions to the punitive oil and gas tax "ACES" that is contributing to an accelerating decline in North Slope oil production, RDC advocates for tax policies and incentives that enhance the State of Alaska's competitiveness for all of our resource industries. Any resource development project has economic limitations, and whether it is oil and gas, mining, or fish harvesting and processing, expecting resource industries to pay taxes that are far in excess of those in other jurisdictions will simply drive capital investment out of Alaska.

We have the natural resources that are the envy of the world and we have the markets. With focused leadership in Juneau and Washington, 2012 and the ensuing years can be a time of growth for Alaska's resource industries.

## National Oceans Policy Council releases draft plan

By Marleanna Hall

The National Ocean Council (NOC) released the Draft National Ocean Policy Implementation Plan for public comment.

The plan lists a number of action items to be addressed, many of which will apply to coastal and marine spatial planning goals. Questions remain as to funding for implementation of 53 action items and details as to how proposed activities will be carried out.

In a February announcement, the NOC said it will include Regional Fishery Management Councils (RFMC), such as the North

Pacific Fishery Management Council, in the proposed Regional Planning Bodies. However, the seat will be limited to federal, state, tribal, or local government RFMC voting members, excluding the private sector members.

RDC and others have repeatedly voiced this request in previous letters and testimony. Initial comments of the draft plan include praise by environmental NGOs, while business groups worry there will be further hurdles to clear for continued and future access to ocean resources.

# Industry poised to increase investments, but Juneau must act

(Continued from page 1)

largely be up to the Senate, where key policy makers were expected to introduce a reform bill in the Resources Committee when this publication went to press in early February. The panel will send the bill to the Finance Committee, the Senate floor, and the House. Among other things, it is expected to address progressivity, but differently than the governor's bill, HB 110.

"My desire is that anything this Legislature passes significantly increases production investment in the state," Parnell said, adding he would judge legislation on whether it moves "the meter on production significantly like HB 110 does."

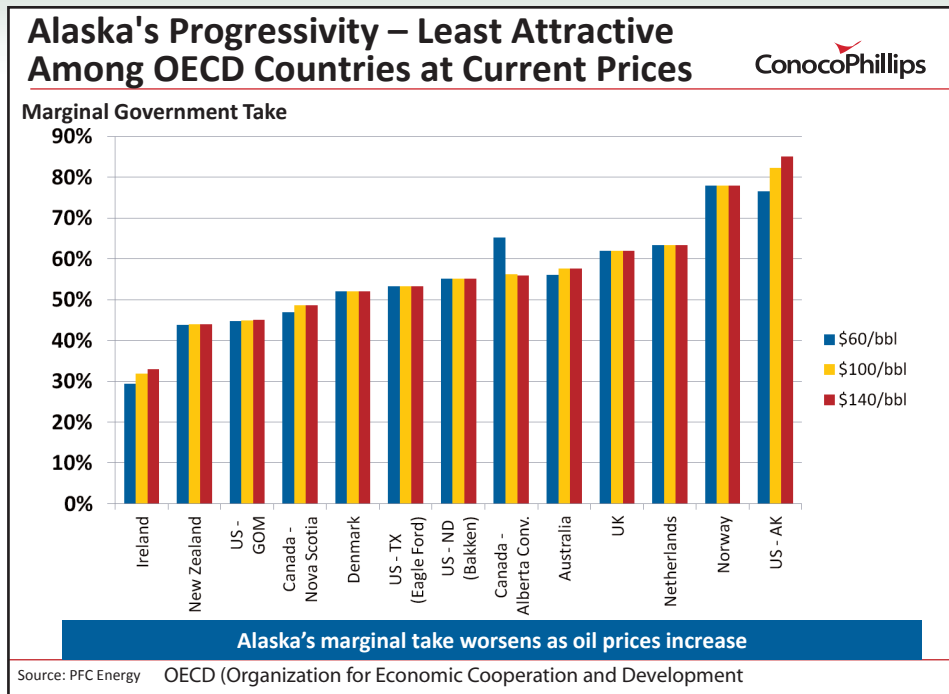
In response to recent arguments cited by opponents of HB 110 that TAPS may be able to operate at low flow levels, Representative Eric Feige acknowledged it may be theoretically possible to operate the pipeline down to 100,000 barrels a day with the resulting small profit, but he warned funding state government becomes extremely challenging at that level. He also warned that the pipeline at low flow levels would be less resilient when a shut down occurs.

In a recent Petroleum News interview, he suggested the legislature look at what point in the production curve does the state income tax have to be reinstated to pay for government, rather than debate how low TAPS throughput can go.

Feige noted the current year's budget balances at \$94 a barrel. Assuming a six percent decline in production and a seven percent increase in the budget, in four years the state will need an oil price of \$142 per barrel to break even, Feige said. That's a budget shortfall of 30% at today's prices.

The state's 2011 fall revenue forecast predicts that if the current decline trends continue, Alaska will be in deficit territory by 2015.

Speaking at the Alliance's Meet Alaska Conference last month in Anchorage, John Minge, President of BP Exploration (Alaska), Inc., said his company welcomes Parnell's



goal of increasing TAPS throughput to one million barrels per day.

"We believe the goal is achievable," Minge said. However, he said for such a goal to be achieved, the state will need to attract billions of dollars in increased investment, which in turn will be contingent on a tax regime that encourages such investment.

Minge said BP's capital investment in Alaska is declining, while ConocoPhillips' investment remains flat.

He explained that in the summer of 2007, prior to the passage of the current production tax, BP had planned a capital budget for Alaska of \$1.2 billion for 2012; the actual budget is about \$650 million. He warned that at the current investment rate, "we guarantee a six to eight percent decline" per year in production.

At the ongoing rate of decline in North Slope production, throughput in TAPS will fall to 300,000 barrels per day in 2020, Minge estimated. And at the current rate of increase in the state budget, it would take \$220 per barrel oil to balance the budget in eight years, he said.

TAPS throughput is already lower than what the 2007 state revenue forecast projected for 2020. Meanwhile, the state warned in its most recent forecast that half of its revenue stream in 2020 will depend on industry investments that have yet to be made.

Minge said only 35 percent of BP's capital budget in Alaska is aimed at sustaining oil

production. Forty percent is going into infrastructure maintenance and renewal and 25 percent into technologies for heavy and viscous oil and gas. He said only one out of six of BP's North Slope employees is working in jobs involving new production with the rest "focused on operating, maintaining, and repairing facilities that are already there."

ConocoPhillips has said that most of its capital budget is allocated to maintenance.

Minge outlined several projects as part of the \$5 billion in investment opportunities that BP sees on the North Slope, but only with meaningful tax reform. "When the investment climate improves and our projects are commercially viable, we'll be able to move," he said. "If HB 110 were to pass, there are many projects we would start working immediately."

Minge emphasized that the state is in the oil business – it makes money and its economy prospers when industry invests.

"Under the current tax structure, the state is actually squeezing the life out of the industry by making investments in new oil unattractive; by taking the returns now, rather than over many years; by removing revenues at a rate which simply is not sustainable for our long-term future."

ConocoPhillips chief economist, Marianne Kah, noted there are many places for the oil industry to invest and Alaska does need to compete for capital.

Kah said Alaska's progressivity tax  
(Continued to page 5)

## High costs and taxes are obstacles to stemming production decline

Alaska is not participating in the current boom the oil industry is experiencing across the nation and abroad because of its high costs and a tax regime that takes virtually all of the upside at high oil prices, said ConocoPhillips Chief Economist Marianne Kah.

Speaking at the Alliance Meet Alaska conference in January, Kah outlined a number of competitive disadvantages the state has in attracting investment, and she discussed investment criteria most companies look at when deciding where to invest.

The first is prospectivity – does the region have large hydrocarbon resources and in field sizes to be economic?

“While Alaska has many resource opportunities, the field size is smaller and therefore it can’t hold the same order of taxation that other places we might invest can hold,” Kah said.

The cost structure is also a major factor – not just exploration and development costs, but also transportation to get the oil to market.

With its high costs, Alaska doesn’t fare well.

“It’s far from market and it’s expensive to operate in the Arctic,” Kah said. “So again, from a cost point of view, it can’t hold the same rate of taxes that other places we operate can,” Kah said.

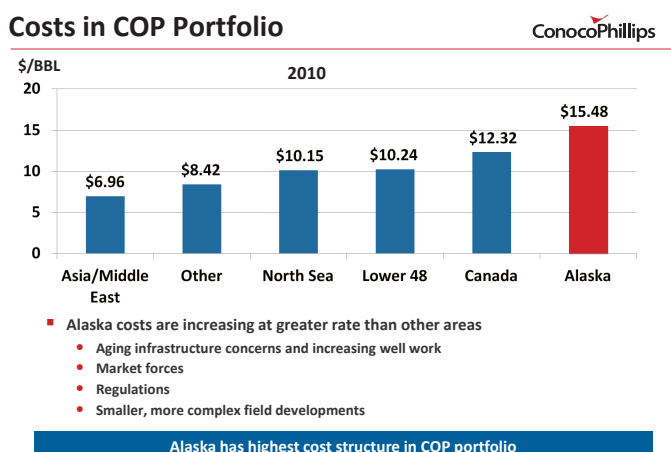
Alaska’s long cycle time – to get from initial investment to a cash return – is also a negative. She explained that timelines for projects in the Arctic span years due to short drilling seasons, federal rules and regulations, and litigation.

With regard to tax rates, she noted the 49th state is far less prospective than Kazakhstan and Venezuela, which “can afford to have a higher tax rate than Alaska.”

Kah said Alaska has the highest cost of any other prospect in her company’s portfolio, but she noted what nature has dealt can be changed by the fiscal regime.

When it comes to the impact of taxes on investment, Kah said there is “a whole body of economic literature which points out that the marginal rate is really what determines investment, it’s not the average rate or the effective rate.” She defined the marginal rate as what a company is taxed on its last dollar invested and earned.

Under Alaska’s Clear and Equitable Share (ACES), Alaska has the highest tax rate of any of the developed countries that ConocoPhillips is operating within. “And of course the tax rate goes



up substantially as the price of oil rises,” she said, referring to the progressivity factor in the law. “There is no upside for investment in Alaska.”

Alaska is near the tax rate of Kazakhstan and Venezuela, but both countries have higher prospectivity and lower costs than Alaska, Kah emphasized.

“There is a tight oil and shale gas revolution taking place in the United States today, offering a lot of investment opportunities,” Kah said. Noting that revolution is poised to go global, Kah warned that “industry has a lot of places to invest and Alaska does have to compete.”

Kah said Alaska is not participating in the oil production renaissance taking place in the rest of the nation and its role in supplying energy is diminishing on a relative and absolute basis as production steadily declines.

“Alaska is not participating in this renaissance and there is really no reason for that – there’s a lot of resources up here. The reasons have to do with above ground issues such as business climate, investment climate, tax policy.”

Kah said the state’s current tax structure is “just taking away too much of the upside and the high progressivity is hurting project economics, even in a high price environment.”

## Until tax culture is changed, Alaska unlikely to stem decline

(Continued from page 4)

structure is severely limiting investment and production here. She said Alaska’s marginal tax rate is a major factor in determining the state’s competitiveness with other oil and gas provinces. She pointed out that the total local, state and federal government take can rise as high as 90 percent at the high end of the price spectrum. (See related story above).

In a sobering comment, Kara Moriarty, Executive Director of the Alaska Oil and Gas Association, predicted that “until we see a change in the (tax) culture here, we’re not going to see the type of development that can stem the decline.”

Opponents of oil production tax reform are not convinced that industry will respond with increased investment in Alaska if the governor’s bill reforming oil taxes passes this session. They note that even though taxes were low between 1996 and 2006, oil production continued to decline.

However, between 1996 and 2003, the price of oil averaged less than \$20 per barrel, having a serious impact on industry investments in high-cost jurisdictions, like Alaska. Prices fell as low as \$10 a barrel during this period, forcing wide spread lay-offs and a wave of company mergers. Over the entire 10-year period, prices averaged under \$32 per barrel, suppressing investments and production.



# Alaska's economic engine is in trouble

According to the Alaska Department of Revenue (DOR), the state will depend on oil and gas revenues to fund 92% of state spending this coming fiscal year. With increasing government costs and decreasing oil production, Alaska's economic engine needs an overhaul.

In 2007, just weeks after successfully pushing through the largest tax increase on the oil and gas industry in the state's history (ACES), the Palin administration proudly predicted that oil production would be 675,000 barrels per day in 2011. The actual production number turned out to be 603,000 barrels per day.

In fact, according to the optimistic projections after the tax increase was adopted, the Palin administration didn't forecast Alaska's daily oil production would drop to current day levels until 2022. Looks like we arrived at their projected decline destination ten years early.

The declining production numbers are increasingly worrisome once you consider the growth in government spending during that same time frame. In 2002, the state was producing over one million barrels of oil per day and general fund spending for fiscal year 2002-03 was \$2.3 billion. In 2012, the state projects there will be 574,000 barrels per day produced and general fund spending will be \$5.5 billion.

In short, while oil production has decreased by 40% over the last decade, the cost of education, public safety, courts, employee retirement and all other operating expenses has doubled in the last decade. This of course excludes other state expenses like the annual capital budget and shifts to the state from decreasing federal funds.

Even with record oil prices predicted to stay above \$100 per barrel this year, future revenue projections show a steep decline along with production. While this isn't a real surprise for a state that balances its budget based on a fluctuating commodity price, the question remains: how do we protect Alaska's economic future?

Many have pinned their hopes on the sudden emergence of small independent oil companies on the North Slope. However, caution is more than warranted. While the growth of independents have made an exciting splash and given some state lawmakers an argument against modifying the existing ACES tax structure, some policy makers and industry insiders worry the benefits might not be what has been advertised.

In addition, a recent report released by oil and gas consultant Pedro Van Meurs concluded that the generous exploration tax credits that have attracted independents, were completely disconnected from the actual transition into production.

Even with the increase of independents, many of those same companies have expressed concerns about the current production taxes and their ability to eventually monetize any discoveries.

The debate over the current ACES tax structure has created a wide schism in the state legislature. Opponents of modifying the tax structure have called it a "giveaway" and argued that companies are still very profitable. Supporters of modifying the tax structure say the numbers speak for themselves.

Production has dropped by more than 140,000 barrels per day since the passage of ACES. BP has reduced its capital spending by 40% in 2011 from what it planned prior to ACES. ConocoPhillips capital investment has more than doubled elsewhere, but remains

stagnant in Alaska.

But more importantly, supporters of tax reform point to current forecasts that show 50% of the state's oil production in 2020 is expected from investments that have yet to be made.

Still opponents remain unconvinced that providing tax relief will make Alaska more competitive in the global marketplace.

In April, ConocoPhillips CEO Jim Mulva committed to the gas partial processing plant at Prudhoe Bay in exchange for ACES reform. That's 50 new wells and 80 million barrels of new oil. It's an investment of about \$2 billion dollars. He committed to more satellite wells at Alpine.

In November at RDC, ConocoPhillips Alaska President Trond-Erik Johansen reaffirmed that commitment, and promised increased drilling activity and more satellite development at Alpine and Kuparuk, if production taxes were made more competitive.

At the same event, Claire Fitzpatrick, Chief Financial Officer, BP Exploration (Alaska) also committed to joining ConocoPhillips with development of I-Pad, along with expanding development at acreage representing more than five billion barrels of un-recovered oil.

She said BP was "poised to invest billions of dollars in new projects that will result in billions of barrels in new oil from known sources." As for the impact of ACES, she said; "If BP had been investing in these projects over the past four years, the rate of decline over the next decade would be flat."

And even though the producers have given specific examples of how they would take advantage of tax reform, many lawmakers are demanding more assurances from the industry.

Even the consultant Van Meurs concluded that one aspect of the current ACES tax regime that is out of whack is the punitive nature of the progressivity factor.

When oil is over \$100 a barrel, the state takes two dollars to every one for the companies who are taking the risk. With the price of oil projected to be over \$100 per barrel for the coming year, the high tax take from the state will continue to be a barrier for production growth without changes to ACES.

In 2007 when ACES was passed, there was a feeding frenzy in Juneau to more than double taxes on the industry. It bordered on economic suicide. Ironically, one of the pitches to lawmakers was that they needed to jack up taxes to prevent Alaskans from having to pay an income tax. However, realizing now that the decline curve projections were ten years off, the doubling oil taxes has actually pushed Alaskans closer to the day when they'll have to reach into their own pockets, or the Permanent Fund to pay for state government.

Reasonable people can disagree on what structural changes need to be made to ACES to help stimulate new production, but a needed consensus on at least adjusting the progressivity factor should be obvious to all.

Alaska's economic engine is in trouble. Today it's operating on fuel from high oil prices which is masking the real risk to the state's economic future. Given the long lead time for projects to come on line, the state needs to act sooner rather than later. Let's hope lawmakers put aside their grandstanding and actually create a tax policy that drives investment.

# Point Thomson: Alaskans voice strong support

By Carl Portman

Alaskans voiced overwhelming support for the development of ExxonMobil's Point Thomson natural gas condensate project at a public hearing in Anchorage earlier this winter. By a 36-0 margin, those attending the hearing urged the U.S. Army Corps of Engineers to move forward with Alternative B in the Point Thomson Draft Environmental Impact Statement (DEIS).

The DEIS presents five alternatives, including Alternative B, which features coastal pads with in-field gravel roads.

Point Thomson is a remote field on the Beaufort Sea coastline 60 miles east of Prudhoe Bay and two miles from the Arctic National Wildlife Refuge (ANWR). The field contains an estimated eight trillion cubic feet of natural gas and 400 million barrels of oil and gas condensate. Point Thomson represents approximately 25 percent of the North Slope's known natural gas resources.

The first exploration well was drilled in the Point Thomson area in 1969. To date, 21 exploratory wells have been drilled on and offshore in the area and several gravel structures from these early exploration activities remain. Most of the Point Thomson reservoir is offshore, but the project's facilities would be on land and the reservoir would be tapped from two onshore drilling pads.

Development of Point Thomson is essential to Alaska natural gas commercialization. Besides the operator, ExxonMobil, other major partners include BP, ConocoPhillips, and Chevron.

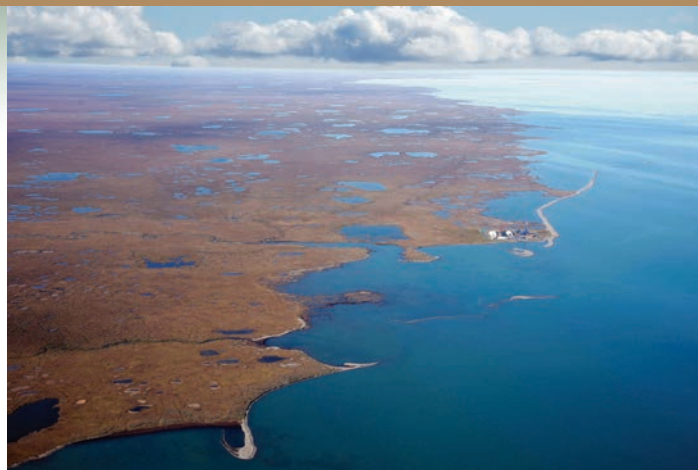
The project will use long-reach directional drilling from onshore pads to recover offshore resources. The proposed project includes three pads and five wells, with a central pad supporting production facilities, infield roads, pipelines, an airstrip, and a gravel mine site. A common carrier pipeline will be constructed for transporting hydrocarbon liquids 22 miles west to the Badami pipeline.

RDC, the Alaska Oil and Gas Association (AOGA), the Alaska Support Industry Alliance, and the Alaska State Chamber of Commerce supported Alternative B, which they all said is the safest and most environmentally-sound and economic option.

"Alternatives C, D, and E all prohibit or require project components which are more harmful to the environment than the proposed project," said Kate Williams, Regulatory Affairs Representative for AOGA. She pointed out that the other alternatives result in a larger project footprint, pose unnecessary safety risks, as well as compromise emergency response and operational efficiencies. Williams also noted the project has been designed to have minimal impacts on subsistence activities.

Since 2008, ExxonMobil has contracted with 170 Alaska-based firms, investing \$700 million in Alaska businesses and employment opportunities. Should the project move forward, revenues would flow throughout the state.

Joe Balash, Deputy Commissioner of the Alaska Department of Natural Resources, said "the state continues to fully support production at Point Thomson, which would offset current declines in North Slope production and maintain efficiency of the Trans-Alaska Pipeline System." Balash said Point Thomson's development



The Point Thomson Project is 60 miles east of Prudhoe Bay.

would provide enormous benefits to the state and nation and lead to more jobs, significant revenue, and enhanced energy security.

However, he cautioned that the Point Thomson DEIS is another example of federal overreach on state lands. He explained that the DEIS includes ANWR in its evaluation due to its proximity to the project and assumes that activities occurring outside refuge boundaries could impact ANWR's wilderness values.

"It is disconcerting that the DEIS places so much emphasis on the proposed project's proximity to ANWR and implies that the state should manage its adjacent lands as if they were part of the refuge," said Balash. "We have serious issues with the appropriateness of the DEIS assessing such impacts when the project is located on state lands designated for oil and gas development, well outside refuge boundaries. Moreover, a huge portion of ANWR already includes over eight million acres that are designated as wilderness and ANWR also encompasses vast ecosystems that are specifically designed to protect fish, wildlife, and wilderness values. Therefore, there is no reason to extend ANWR's reach beyond its boundaries."

The Point Thomson EIS process for the currently proposed project began in late 2009. The estimated date for issuing the Record of Decision (ROD) for the EIS has slipped by one year from the original schedule. Because construction on the North Slope is typically limited to the winter season, this schedule slip has unfortunately resulted in a two-year delay in the project start-up and production date.

As a cooperating agency on the EIS, the Alaska Department of Natural Resources has highlighted the importance of establishing and maintaining a reasonable and firm timeframe for completion. "Given these delays, the state remains a strong proponent for the timely decision making and collaborative working relationship among cooperating agencies throughout the remainder of the EIS process, as well as throughout the potential permitting of this proposed project," Balash said. "We look forward to continue working together with these federal agencies to see continued success in completing the EIS phase for the Point Thomson project."

In its comments supporting the project, RDC said Point Thomson will not pose a threat to the survival of polar bears. "Polar bear denning habitat is plentiful, widely distributed and undisturbed on the Beaufort Sea coastal plain," RDC explained. "It is highly unlikely that denning habitat will become a limiting factor for polar bears, even when all foreseeable development activity is taken into account."

# 2012 Resource Development Council Policy Positions

## TOP LEGISLATIVE PRIORITIES

- Advocate for tax policy and incentives that enhance the State of Alaska's competitiveness for all industries.
- Support efforts to bring more accountability to the appeals and litigation processes for community and resource development projects.
- Encourage the state to promote and defend the integrity of Alaska's permitting process and advocate for predictable, timely, and efficient state and federal permitting processes based on sound science and economic feasibility.
- Support measures to reverse the Alaska oil and gas production decline. This includes legislation that results in enhanced production from existing fields as well as new exploration and development.

## General Issues

### Fiscal Policy & Planning

- Advocate for tax policy and incentives that enhance the State of Alaska's competitiveness for all industries.
- Advocate for implementation of a comprehensive, responsible, and long-range state fiscal plan.
- Support efforts to hold the FY13 operating budget to FY10 levels of \$3.21 billion.
- Support some use of the Permanent Fund earnings as part of a fiscal plan.
- Support development of a state strategic economic development plan through the Alaska Forward Initiative.
- Oppose efforts to enshrine the Permanent Fund Dividend in the Alaska Constitution.

### Access

- Advocate increased access to and across public lands for resource and community development.
- Advocate multiple-use of public lands.
- Continue to assert the state's rights on navigable waters and submerged lands.

### Regulation/Permitting

- Support efforts to bring more accountability to the appeals and litigation processes for community and resource development projects.
- Encourage the state to promote and defend the integrity of Alaska's permitting process.
- Encourage the state to use all available avenues to ensure reasonable and predictable decision making under the CWA Section 404 permit program.
- Advocate predictable, timely, and efficient state and federal permitting processes based on sound science and economic feasibility.
- Provide adequate resources to permitting agencies for personnel, research, and science.
- Support the State of Alaska's efforts to challenge unwarranted Endangered Species Act listings and proposed critical habitat designations.
- Support reasonable mixing zones for resource and community development.
- Support efforts to reduce federal interference and devolve more authority to the states.

### Infrastructure

- Support transportation and power projects that enhance resource and community development activities.

### Education

- Support programs, including the Alaska Resource Education program, to educate students and the general public on responsible resource development activities in Alaska.
- Support efforts to provide for a skilled and trained Alaska workforce necessary to support resource development industries.

## Industry Specific Issues

### Oil & Gas

- Support measures to reverse the Alaska oil and gas production decline. This includes legislation that results in enhanced production from existing fields as well as new exploration and development.
- Encourage incentives and tax policy that increase the number of infield and exploratory wells drilled on state land.
- Encourage public policy and fiscal decisions to improve the commercial viability of developing Alaska's North Slope and Interior natural gas resources.
- Educate and advocate for opening the coastal plain of the ANWR, NPR-A, and the Alaskan OCS to oil and gas development.
- Support offshore oil and gas development and work to maximize benefits to Alaska through advocacy for federal revenue sharing and/or community impact assistance.

### Energy

- Support simplified leasing and permitting of non-conventional fuel resources to encourage development of the state's resources and provide energy to local areas.
- Encourage development of new electrical generating and transmission systems to provide stable sources of electricity for economic development and existing consumers.
- Support utilization of Alaska's coal resources for value-added industries and power generation in addition to export to international markets.
- Support efforts to diversify Alaska's energy sources, including known renewable energy options.

### Mining

- Encourage the expansion and increased production from existing deposits as well as new exploration and development of Alaska's mineral resources.
- Advocate continuation and expansion of airborne geophysical mapping and the on-the-ground follow up work required to realize the full benefits of the program.
- Support the state's efforts to maintain control of reclamation bonding.

### Fisheries

- Support policies that ensure healthy, sustainable commercial, sport and subsistence fishery resources; access and markets for Alaska fishermen, and a reasonable and stable regulatory environment.
- Support funding of fisheries and marine mammal research.

### Forestry

- Advocate for a reliable and economical long-term state and federal timber supply.
- Support adequate funding and enforcement of the Alaska Forest Practices Act.
- Encourage funding of forest management initiatives that address long-term forest health and reforestation.

### Tourism

- Advocate for a positive business environment to promote continued growth of the cruise and tourism industries in Alaska.
- Advocate for equitable environmental laws for cruise ships.
- Advocate for the reinvestment of a portion of visitor industry-related tax revenues to market Alaska as a destination.
- Advocate additional aircraft landing sites and reduced restrictions on over-flights.
- Support South Denali infrastructure development to provide for a variety of visitor experiences and help accommodate future visitor needs in the region.



# RDC holds legislative fly-in to Juneau

Photos by Judy Patrick

Forty members of the RDC Board of Directors attended the annual 2012 legislative fly-in to Juneau last month to meet with Governor Sean Parnell, cabinet officials, and key legislators. In two days of meetings, Board members representing Alaska's renewable and non-renewable resource industries and their support sectors, addressed RDC's 2012 policy positions and top legislative priorities.

RDC would like to recognize the sponsors of this year's fly-in, which included Aleut Corporation, Anglo American US LLC, BP Exploration (Alaska), Inc., ConocoPhillips Alaska, Inc., Cruz Companies, Edison Chouest Offshore, ExxonMobil, Holland America Line, Michael Baker Jr., Inc., Northrim Bank, Statoil and Usibelli Coal Mine, Inc.



House speaker Mike Chenault delivered a preview of the 2012 legislative session and listened to concerns of RDC Board members. Representatives Lindsey Holmes, Bob Herron, and Reggie Joule also met with the Board.



Senator Tom Wagoner discussed oil production tax reform and other issues when he met with the Board. Meetings also occurred with Senators Joe Paskvan, Joe Thomas, and Dennis Egan.



RDC president Tom Maloney and Executive Director Rick Rogers lead the meeting with Representative Eric Feige.



Rep. Craig Johnson acknowledged that the legislature needs to enact "meaningful" reform to Alaska's oil production tax structure. Pictured at far right is John Sturgeon, President, Koncor Forest Products.



Dave Cruz, President of Cruz Companies, makes the case for oil production tax reform before Senator Joe Paskvan.



RDC Board members Scott Thorson, Patty Bielawski, Kara Moriarty (in back row), Wendy Lindskoog, and Hans Neidig attended the fly-in.

# Cruise industry tax changes work to bring investment back to Alaska

By Deantha Crockett

When the 2010 legislative session came to a close, a pivotal moment appeared for the tourism industry in Alaska. Senate Bill 312 passed both houses in the final hours, reducing the amount of taxes the cruise industry pays to bring passengers to Alaska.

The story behind SB312 is not an altogether happy one. It began with the cruise ship initiative in 2006, touted by a few backers who alleged the cruise lines “took” profits from Alaska’s scenic beauty and many visitor offerings while “giving little back.”

As is often the case with ballot initiatives, it was poorly written, intended to penalize a productive business, and designed to wrongly influence voters into passing it. The initiative blatantly ignored the industry’s contributions to Alaska at the time and preyed on the premise of taxing outside visitors other than ourselves, which may have sounded like a good idea to some. But in actuality, the initiative began a slow dismantling of a thriving industry.

What wasn’t handily explained about the cruise ship initiative was how it imposed four new taxes on the industry, changed the methods of monitoring and compliance, and environmental standards that even the best available technology could not meet. Another component was that local vendors were required to publicly disclose confidential business pricing on their tours and excursions. That requirement was repealed by the Legislature the year after the initiative passed.

Many businesses would find these new requirements unacceptable, and the cruise lines were no exception.

Cruise ships are mobile assets, and as most businesses would do, they reviewed their options and deployed their ships to other more profitable regions of the world. These redeployments resulted in a loss of nearly 150,000 passengers for Alaska’s 2010 season.

Some might suppose the initiative writers were pleased with the reduced amount of cruise ships in Alaska. The cruise lines didn’t suffer significant hardship. But hundreds of Alaskans who make their living off passengers arriving on cruise ships did.

The reduced number of people looking for places to stay, tours to take and meals to eat hurt almost every kind of business and forced many to close their doors for good. These businesses, many family-owned and operated and all uniquely Alaskan, did not have the option of uprooting their foundations and suffered greatly.

Some of the struggling businesses, unwilling to watch their life’s work crumble away, decided to put their heads together and formulate a plan. Their brainstorm created AlaskaACT, an organization administered by RDC and made up of individuals and businesses benefitting from cruise passenger business in Alaska.

They strategized with other tourism industry groups, signed up hundreds of members, and gained the support of Governor Sean Parnell and many legislators. They traveled to a cruise conference, Seatrade, where destinations worldwide showed their locations off; it became apparent to the governor that Alaska needed to fight for its cruise business and all parties got to work.

“The governor’s attendance at Seatrade made huge strides in restoring Alaska’s relationship with the cruise industry,” said Bob Berto, President of AlaskaACT. “We were very pleased with the governor’s commitment to build a strong visitor industry in Alaska,



With a more hospitable investment climate, cruise lines are deploying ships back to Alaska, leading to new jobs and business for Alaskans.

bringing in critical dollars to help support Alaska businesses and thousands of jobs across our state.”

Upon return from Seatrade, bills were introduced to show the cruise lines Alaska valued their business, and ultimately SB312 passed. The cruise lines immediately responded.

Princess Cruises announced the redeployment of a ship back to Alaska in 2012, bringing 45,000 more passengers per year. In addition, this ship would originate in one destination and end in another and necessitate passengers to fly either in or out of Alaska; motivating them to extend their plans and solicit several businesses outside of the cruise lines.

Holland America Line increased their capacity for 2012, bringing an increased number of sailings and subsequently more passengers through Southeast and into Southcentral Alaska.

Norwegian Cruise Line added another ship to its Alaska market beginning in 2013, bringing 38,000 additional passengers to Southeast Alaska and Whittier. “With the strides made by the state government, we felt the time was right to add a third ship in Alaska,” said Kevin Sheehan, Norwegian’s Chief Executive Officer

In response to the Norwegian announcement, Governor Parnell said, “We are pleased that Norwegian Cruise Line will bring even more passengers to our great state. This is more evidence that lowering taxes on an industry leads to increased investment that Alaskans will reap into the future.”

RDC is hopeful that the Legislature will look to this Alaska success story when deliberating changes to the State oil tax structure this session. “It is truly a case study of how lowering taxes attracts investment and sends a message that Alaska is indeed open for business,” said Tom Maloney, RDC Board President. “We have proven that making these changes can bring an industry back to life, and RDC urges lawmakers to take the same approach with the oil and gas sector,” Maloney added. “Oil and gas production is the lifeblood of Alaska’s economy, and it is critical we increase exploration and production. RDC believes this will be accomplished only by fixing the tax structure to encourage new investment, as was done with the cruise industry.”

# Industry digest

## U.S. House committee passes ANWR bill

The House Republicans took a major step in February toward allowing oil and gas drilling in the Arctic National Wildlife Refuge (ANWR), by passing a bill that would create jobs, increase domestic energy production and fund highway projects.

The Natural Resources Committee voted 29-13 for a bill sponsored by Chairman Doc Hastings (R-WA) that would require the Obama administration to lease up to three percent of the refuge's oil-rich coastal plain.

The vote is the first time in the 112th Congress that a committee has advanced a bill to allow drilling in ANWR, which is estimated to contain 10 billion barrels of oil. It brings House Republicans a step closer to approving a package of energy and infrastructure bills that will raise billions of dollars for the federal treasury.

"At a time when the economy desperately needs growth and millions of Americans are out of work, opening less than three percent of ANWR for energy production -- as it was originally intended -- will create tens of thousands of jobs and billions of barrels of American oil," Hastings said.

"ANWR represents one of the single greatest opportunities for new energy production on federal land that will help insulate America against unstable foreign energy supplies and help boost the national economy as well as the local, Alaska Native economies."

The bill would allow exploration on roughly 400,000 acres of the coastal plain's 1.5 million acres, which itself is only eight percent of the huge refuge.

The ANWR bill is likely to die in the Senate as part of a package or as a stand-alone bill. If it survives, it would almost certainly be vetoed by President Obama, whose administration is leaning toward recommending to Congress a Wilderness designation of the coastal plain.

## Central Park Wilderness resolution gets national media attention

Representative Kyle Johansen's resolution to designate Manhattan's Central Park as Wilderness has attracted national media attention, an objective of the Ketchikan representative.

The New York Times, the Associated Press and other national media outlets have covered the issue and interviewed Johansen, who expressed the frustrations of many Alaskans regarding the efforts of non-development interests and their allies in Congress to block resource development on federal lands in Alaska.

Johansen said he targeted Manhattan because it is the epicenter for wealth and for social and environmental movements. It is the heart of where there is a lot of opposition to development, Johansen said.

HJR 31 draws a striking comparison between Central Park and potential resource development opportunities on federal lands in Alaska. For example, Central Park comprises about six percent of heavily developed Manhattan, which is less than 23 square miles in size. The coastal plain of ANWR makes up about eight percent of the 30,000 square mile refuge.

The resolution is not intended to be taken literally, Johansen explained. It is a piece of political satire pointing out the hypocrisy of East Coast interests that heavily fund efforts to block oil and gas development in a small portion of ANWR while their economy is supported by multiple use activities throughout the eastern United States, Johansen said.

## Resolution urges feds to plug legacy wells

Representative Charisse Millett has introduced a resolution in Juneau urging the federal government to plug legacy wells properly and reclaim the well sites in order to protect the Arctic.

Millett pointed out that the U.S. Navy and the U.S. Geological Survey drilled approximately 137 wells on federal lands in northern Alaska between 1944 and 1981, all of which are now abandoned. Only seven of the legacy wells were properly plugged and reclaimed, the resolution stated.

Millett said the remaining wells are out of compliance with regulations adopted by the Alaska Oil and Gas Conservation Commission (AOGCC), posing a risk to surface vegetation, groundwater, and wildlife.

The AOGCC has repeatedly reminded the federal government of the obligation to plug legacy wells and properly reclaim well sites. The state cannot impose fines on the federal government, but if it could do so, the fines would exceed \$8 billion, and much more if the statute of limitations were disregarded.

"HJR 29 points out the double standard and hypocrisy that exists in the federal government's regulation and permitting of resource development activities in Alaska," said RDC Executive Director Rick Rogers. "Clearly, the Department of the Interior has not held itself to the same standards it demands industry to meet in the responsible development of Alaska's resources."

## RDC supports Susitna State Forest proposal

RDC is supporting Senate Bill 159, which would create the Susitna State Forest over 763,200 acres of state land west of the Parks Highway.

The Alaska Department of Natural Resources currently manages 9.5 million acres of forest land in the Matanuska and Susitna Valleys. Of this land, timber management is allowed on approximately 2.1 million acres. Remaining land is designated for other uses, including land sales, recreation, water resources, and fish and wildlife habitat. Over 3.1 million acres is protected in legislatively-designated state parks, refuges, and public use areas.

The establishment of the Susitna State Forest would ensure that some land would remain available for long-term forest management. It would allow the Division of Forestry to more actively manage lands and vegetation to promote a variety of forest ages, which in turn would maximize the sustainable supply of timber from the state timber base and provide for more diverse and healthy habitats for wildlife. In addition, active management would also help reduce wildfire risk.

The Division of Forestry would manage the state forest for a long-term supply of timber to local processors and retain land in state ownership for other multiple uses. An enhanced long-term timber supply would help support the forest products industry, provide fuel for sustainable biomass energy projects, and create new jobs. It would also benefit the recreational sector as the state intends to develop access to the new state forest and encourage a broad range of multiple uses. These multiple uses, including annual timber harvests, would provide important economic opportunities to local communities, businesses, and residents.

If established, the Susitna State Forest would be the fourth state forest in Alaska. SB 159 is sponsored by Senator Linda Menard of Wasilla.



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