

Alaska Economic Report

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NGO investor lobbying appears to pay on Pebble

Conservation groups are employing a new tactic to fight major projects, and it appears to be having an effect with large public companies sensitive to reputation. This was likely a factor in First Quantum Minerals' decision not to exercise an option on Pebble Mine (see page 3). Pebble opposition groups including tribal entities from Bristol Bay and the Natural Resource Defense Council, a major conservation organization, mounted an intense lobbying campaign on First Quantum's management to exit the project, also attending a shareholder meeting, the NRDC said.

By itself this might not have been enough but the groups also meet with management at BlackRock, an equity investment group holding a major stake in First Quantum. BlackRock has been touting a new "sustainable" investment strategy, and the NRDC played on that in meetings with Black-

Rock, it said. Now the same strategy is being used in an attempt to chill investment interest in the Arctic National Wildlife Refuge. BNP Paribas Asset Management of Paris and New York state's retirement fund has sent letters to 100 major oil and gas companies with Arctic interests asking them not to participate in upcoming ANWR lease sales. The same basic tactic, used by Greenpeace, was also effective against Shell with its Chuchi Sea venture in 2015. Although Shell hit a dry hole, ordinarily a company wouldn't give up on a region with only one well. Shell's board eventually tired of being pounded.

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ANWR lease sale could come as early as July, 2019

A federal lease sale in the Arctic National Wildlife Refuge could come as early as July, 2019. Joe Balash, Assistant Interior Secretary for Lands and Minerals, said the Environmental Impact Statement and Record of Decision for leasing is to be complete by late spring. The lease sale comes after that, Balash said in a briefing Thursday, May 30. The federal Tax and Jobs Act of 2017 requires that two ANWR sales be held with not less than 400,000 acres offered in

each sale. One issue Interior is wrestling with is how to handle a 2,000-acre limit on surface disturbance when leases are sold. This is a complication because bidders would not know how limits will be applied across the tracts that might be sold. Balash said the department is still working on this. Agencies are also working on the lease stipulations, although stipulations used in leasing in the National Petroleum Reserve-Alaska are being used as a model, Balash said.

Energy:

Siemens: LNG to Fairbanks

Siemens and a joint-venture of two Mat-Su Alaska Native organizations, the Knik village corporation, Knikatnu Inc. and its tribal partner, Knik Tribe, have made an offer to supply liquefied natural gas to the Interior Gas Utility at a price of \$12.60 per thousand cubic feet, or mcf, which would be about \$15.50/mcf once gas is delivered through IGU's distribution system to customers. If the IGU makes the decision to proceed, the plant could be built and operating by December, 2019, Siemens and its partners say. The total project cost, including connections from the plant to nearby Alaska Railroad tracks and an Enstar Natural Gas Pipeline, is estimated at \$100 million.

Details were made available Monday from a presentation made by Siemens and its Knik partners to IGU's board in Fairbanks on May 15. The IGU was not available to comment on the proposal. The \$15.50/mcf cost to consumers compares favorably to a \$22.91/mcf price now charged to customers by Fairbanks Natural Gas, the small utility now serving the community, according to the Siemens/Knik presentation.

Fairbanks Natural Gas is now trucking LNG to the Interior from a small LNG plant near Point MacKenzie, in the Mat-Su Borough. The plan is for FNG, which serves a core downtown Fairbanks market, to be merged with the newer Interior Gas Utility, which is building a distribution system near North Pole, east of the city. Under the proposal two Knik entities would own the project. Siemens, an international energy company, would provide its proprietary modular micro-LNG technology, manage construction and operation and help with financing and training for tribal members and Knikatnu shareholders who would work at the plant. This is similar to the structure of business Siemens has developed with other tribal entities in the U.S. A key part of the plan is that Knikatnu and Knik Tribe will have access to

LNG cost to Fairbanks (Cont.)

low-cost financing for tribal energy projects available through the U.S. Department of Agriculture. Knikatnu owns 40 acres at Houston that is available for the project. The proposal is to start with two of Siemens' LNG production modules to produce 60,000 gallons of LNG per day, enough to meet IGU's need, and to expand to four units to produce 120,000 gallons per day to serve other customers.

IGU has an alternative to the Siemens/Knik proposal in that it can build a new, larger LNG plant at the site of its existing small plant near Port MacKenzie. The existing plant is not large enough to supply the growing gas demand in Fairbanks as the IGU builds its distribution system, so a larger new plant is needed in any event. An aspect of the Siemens/Knik plan is that the Siemens technology would allow a plant to be sized to meet existing demand and then expanded to meet growth through the installation of additional modules.

Railbelt utilities, on coordination

Railbelt utilities are making progress toward a coordinated power transmission system for the grid. Utilities told the Regulatory Commission of Alaska May 23 they plan to have a framework for a jointly-owned transmission entity to finance and build new transmission capacity by the end of the year. Meanwhile, the utilities are moving toward establishing a Railbelt Reliability Council, which would oversee grid operation and reliability standards for transmission of power. GDS Associates is under contract to the utilities on operations and reliability and will have recommendations soon. The initiatives are aimed at overcoming a past lack of coordination among the utilities. Chugach Electric, Municipal Light & Power and Matanuska Electric, are already coordinating dispatch of power among themselves of the most efficient generation capacity.

Minerals:

Pebble says it will replace First Quantum Minerals for mine

Northern Dynasty Minerals Ltd. and First Quantum Minerals Ltd. terminated an agreement under which First Quantum would have become a partner in Northern Dynasty's large Pebble copper/gold project southwest of Anchorage. Northern Dynasty First Quantum were unable to reach agreement on the option and partnership transaction contemplated in the December 15, 2017 framework agreement between the parties. Opponents to the mine were quick to celebrate: "Today is a victory for Bristol Bay's Tribes," said Robert Heyano, Board President of the United Tribes of Bristol Bay. "Quyana (thank you) to First Quantum for listening to reason and divesting from this toxic project."

Pebble's owners are taking this in stride. "I believe we will secure the necessary funding to continue the permitting and review process for Pebble under the National Environmental Policy Act. This will result in an Environmental Impact Statement for Pebble," Pebble Partnership president Tom Collier said. "Pebble remains one of the nation's most important undeveloped mineral resources. It is on state land and is an important economic asset for Alaska. Our project is well defined and we are going to continue communicating with Alaskans about why we believe in the opportunity it represents."

The company has filed applications for federal permits with the U.S. Army Corps of Engineers to build the mine and is in the early stages of preparing a Draft Environmental Impact Statement for the project. Pebble has also planned additional drilling at the site this summer. First Quantum was not available to comment on the reason for its decision.

Pebble is a large, undeveloped accumulation of copper, gold and molybdenum near Lake Iliamna southwest of Anchorage. While the resource, which is confirmed by drilling, is very large, the project has been dogged by controversy and opposition from Alaska Native groups in the region because of the proximity of the proposed mine to sensitive salmon streams. In recent years two major mining companies that took a stake in Pebble, Rio Tinto and Anglo American, exited the project. Over \$700 million has been invested in the project over the years in exploration, environmental monitoring and engineering.

Eielson's Air Force expansion: Fairbanks wants guarantee on housing

Fairbanks community leaders were pleased to hear Sen. Lisa Murkowski extract a verbal commitment from Air Force officials during hearings that they will not build new government housing on Eielson Air Force Base, and instead leave it to the local community and the private sector to accommodate the expected influx of new military families. Now local leaders want the Air Force to put this in writing.

The Air Force said previously it doesn't want to get into the housing business for incoming personnel and families arriving with the two new F-35 interceptor squadrons, but Fairbanks is worried that without more definitive statements in writing large investors will be wary of putting money into major housing development. About 900 homes are needed, although some of this can be accommodated within Fairbanks' existing housing stock.

Business Intelligence

New downtown Anchorage residential project underway

Site preparation has started on a long-planned \$17 million downtown Anchorage high-end residential development project. “Downtown Edge” will offer 35 townhouse-style condominiums. It is the first new residential construction in downtown Anchorage in many years, city officials said, and marks the first part of a downtown revitalization. The project is on Alaska Railroad Corp. land on Second Avenue, near the industrial Ship Creek area. Peterson Group is developing the project. Phase one involves 19 units with three already sold. Prices range from \$420,000 to \$575,000. Downtown Edge is the first part of an eventual 11-acre development that will include commercial tenants.

GCI REVENUES HIT BY FEDERAL RURAL HOSPITAL CUTS: GCI Liberty, the new name for GCI’s telecommunications systems, said its first quarter 2017 revenues fell to \$216.4 million from \$225.3 million in the same period of 2016, an approximate \$9 million drop. About \$6 million of that is due to a decline in \$6 million in payments for rural health care facilities under the Universal Services Fund (see item, page 6). The sale of General Communications Inc. to Liberty Interactive Corp. of Colorado was completed in March.

The company said its consumer services revenues were flat, with customers essentially trading off cable TV for data streaming services, where customers are opting for higher-end data packages. Telephone subscribers also declined. However, total homes served by GCI increased 1 percent during the quarter.

ACS REVENUES ALSO DIP, BUT CONSUMER SERVICES INCOME RISES: Alaska Communications Systems said its first quarter revenues were down 1.2 percent to \$56 million compared with \$56.7 million in first quarter 2016, ACS said. As with GCI, a good part of the first quarter decline is due to the federal cut to federal rural health service communications subsidies. ACS said it is carrying \$11.8 million in unpaid receivables for providing continued service to rural hospitals and clinics.

ACS said its business revenues fell 2.2 percent in the first quarter to \$33.8 million, a decline of \$700,000. The reduction was influenced by the loss of the rural health subsidies. Business revenue makes up about 60 percent of ACS’ basic income. Consumer revenue rose slightly, from \$9.3 million in first quarter 2016 to \$9.4 million in the first quarter of this year.

UAF SELECTED TO PARTICIPATE IN DRONE DISTANCE-OPERATION DEMONSTRATIONS: The University of Alaska Fairbanks was selected by the U.S. Dept. of Transportation to participate in test programs of expanded use of drones in the nation’s airspace. The program will include tests of aerial monitoring of the trans-Alaska oil pipeline, remote delivery of medical supplies and oil and gas platform and pipeline monitoring in Cook Inlet. Night operations and flights beyond operators’ line of sight will also be tested. UAF is one of nine participants from 150 applicants nationwide to be included in DOT’s Unmanned Systems Integration Pilot Program. Anchorage-based K2Dronotics will also be part of the project.

SIGNIFICANT INTEREST SHOWN IN INDUSTRIAL HEMP, STATE SAYS: Industrial hemp may quickly become a new niche market in Alaska agriculture. Gov. Bill Walker signed a bill passed by the Legislature legalizing the product, and state agriculture officials have received over 500 inquiries so far from people interested in making high-value specialized oils from hemp. The oils are non-intoxicating. They are now sold in Alaska but produced elsewhere. Alaska is now one of 34 states that allow the growing of industrial hemp. State officials say a period of testing is needed to help potential growers determine the best seeds and growing conditions.

\$9 MILLION NEW VETS' HOME IN EAGLE RIVER/CHUGIAK: Veterans' groups are working toward an \$9 million housing project in the Eagle River-Chugiak area for homeless vets. Anchorage's assembly endorsed the plan. "Vet's Village" would comprise a main building and up to 25 residential cabins. Operational costs would come from federal grants and a portion of the veterans' wages. City officials say it will save money. Each homeless person costs the municipality \$80,000 to \$100,000 a year, studies show.

BAN ON PLASTIC BAGS CATCHING ON: Four small Alaska communities are now banning disposable plastic shopping bags. The city of Palmer has decided to ban the bags following a similar action by Wasilla, another Matanuska-Susitna Borough city. The vote on Palmer's city council was 4-1. Effective Jan. 1, the ban will affect grocery and retail stores as well as restaurants. Bethel and Cordova are two other Alaska communities with a ban on plastic bags. So far larger communities of Anchorage, Fairbanks and Juneau have not taken action. Alaska Commercial Co., a retailer serving rural communities, is supplying customers with single-use biodegradable bags.

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Petroleum:

ConocoPhillips: Willow likely big

ConocoPhillips appears to have all but decided on “stand-alone” oil processing facilities for its Willow oil discovery in the northeast National Petroleum Reserve-Alaska. This is significant in that it would require a multi-billion-dollar new investment by the company in years following 2020, which allows time for regulatory approvals, and that it would extend support infrastructure into the northeast NPR-A, which would help make other discoveries in the area economically viable. Willow’s discovery was first announced in early 2017 and the drilling of confirmation wells last winter seem to reaffirm the company’s early optimism that Willow is large, with about 300 million barrels of recoverable reserves.

ConocoPhillips recently filed a “master plan” for Willow with the U.S. Bureau of Land Management indicating that facilities including a processing plant, camp, airfield along with road and pipeline connections to the Alpine field will likely be needed for Willow. The apparent size of the discovery means that processing the oil and gas in the existing Alpine field plants would not be feasible.

Delay for tax-credit bonds?

A lawsuit filed by an Alaska citizen raising constitutional issues could throw a wrench into a state plan to sell bonds to retire about \$900 million in accumulated oil tax credit liability. Eric Forrer, a Juneau commercial fishermen and former University of Alaska regent, claims the bonds are similar to state general obligation bonds which require a public vote. State attorneys argue the bond payments are subject to appropriation by the Legislature and not general obligations of the state, and are therefore constitutional.

However, the lawsuit will at least cause a delay in getting bonds sold and the tax credits paid. Revenue Commissioner Sheldon Fisher hopes to get at least \$700 million paid later this year, which would allow

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Bonds to prompt new work (Cont.)

explorers to get back to work on projects that were stalled in 2016 and 2017 because of the tax credit payment problem.

Greens dominate ANWR hearings

Public “scoping” meetings on the Arctic National Wildlife Refuge leasing are underway and set to be finished in June, although we hear the schedule may be extended. Meanwhile, the Fairbanks meeting was embarrassing for pro-development groups with the commentary overwhelmingly against leasing – 50 commenters opposed and one in favor. This apparently happened when opponents, well organized, signed up to speak early and took almost all the time allowed. *We also heard someone lifted the public comment cards made available, a further impediment for those in Fairbanks favoring ANWR leasing.*

Health care:

Federal rural health payments cut

Funding is being cut in the Federal Communication Commission’s Rural Health Care program, jeopardizing financial support for telecommunication services to small rural hospitals. Cordova’s hospital, the Cordova Community Medical Center, is facing an immediate problem, with Alaska Communications System threatening to cut service to the facility on June 30 if a \$964,370 bill isn’t paid. This affects medium-sized hospitals like Central Peninsula in Soldotna as well as small hospitals. This is a dangerous situation because a cut in internet service can severely affect care for patients when electronic medical records, telehealth services, payroll and personnel records are unavailable. The Federal Communications Commission is reviewing the rural health care program but there is no timetable for a decision. *We hear this also involves a fight among telecom firms over the money. Meanwhile, the FCC may use other funds to keep payments going.*

Timber:

Lift of “roadless” rule pending?

Rep. Don Young secured a long-sought exemption from the federal “roadless” rule in national forests in a narrow vote on an amendment to the federal farm bill. The bill itself stalled over other issues but House leaders will be bringing it back for another vote, including Young’s amendment. Young worked to get a win by razor-thin one-vote margin on the roadless amendment, 208 to 207. The roadless rule has blocked U.S. Forest Service development of access roads into undeveloped parts of the huge Tongass National Forest in Southeast Alaska, effectively blocking new timber sales.

Economy:

As recession eases, what will drive recovery?

The recession is moderating but job losses continue. April wage and salary employment was down 1,200, or 0.4 percent. Retail, oil and gas, government and most other occupations registered declines, although smaller than in recent month. Construction and transportation were level with April, 2017, however, and health care showed continuing growth. At some point job losses will flatten, but economists are now wondering what can restart growth?

The losses of high-paying jobs in several industries due to the oil price crash has created this recession. The Legislature’s action to stabilize state finances will restore some business confidence, but it doesn’t bring new cash into the economy. Is there something out there that can inject new cash back into the economy? New projects on the North Slope that are planned will help, but probably not enough to really turn things around. The planned \$6 billion-plus Donlin gold mine would also help. The only thing out there capable of really “moving the needle” is the Alaska LNG Project.

(More on this problem in our next report)

Fisheries:

Copper River salmon a bust?

Is the famed Copper River sockeye fishery a bust this year, or are the fish just late? A third scheduled “opener” for the fishing near Cordova was cancelled after the first two openers were flops, with a fraction of the predicted fish netted. Fisheries experts think the salmon could be running later due to a cold spring and cool ocean temperatures, but they just don’t know. About 500 vessels were on hand for the opening of the fishery, but those are now mostly idled. Meanwhile, other salmon fisheries are opening in Prince William Sound on May 31, Kodiak on June 9, and fishing in other regions soon after.

What worries fisheries managers is that poor ocean conditions that may have affected the Copper River run may also affect other sockeye fisheries. One upside is that the Copper River king salmon run appears on target, with an expected catch of 43,000.

Seafood exports set a record

Alaska seafood exports set a record last year at 1.1 billion tons worth \$3.45 billion. Markets are looking strong this year, with the salmon inventory down, the dollar down a bit in currency markets (which helps our fish sell), and a medium-size harvest expected in Alaska this year – 149 million fish, down 34 percent from last year. The decline in 2018 is in the relatively low-value pink salmon (half as many as last year), while the high-value sockeye catch looks to remain nearly as high as 2017, including in Bristol Bay.

Life in the Bay: Pizza by water!

There will be waterborne pizza delivery in Bristol Bay during the busy 2018 fishing season, which gets underway in late June. The Aleutians Marketplace Competition awarded one of its cash prizes to a local entrepreneur to deliver pizza by skiff from an Island Packing Co. tender as the larger vessel made its rounds. The award will be used to equip the vessel for on-board pizza-making.

Business Intelligence - *continued*

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NORTON SOUND CDQ GROUP DISTRIBUTES COMMUNITY “SHARES”: Norton Sound Economic Development Corp. distributed \$133,333 to each of 15 communities in its region in midyear “community share” payments. The payments were made following payment of a \$2 million dividend to NSEDC by its for-profit subsidiary, Sui Alaska. Norton Sound is a western Alaska Community Development Quota corporation, one of six, which receive a percentage of harvest quotas of offshore fish such as pollock, cod, halibut and crab caught in federally-managed waters. While some CDQ groups lease out their quota shares NSEDC, along with some other groups, own their own fishing vessels which operate under subsidiaries.

HAINES GIVES THE BOOT TO REALITY TV PRODUCERS: Is the end in sight for Alaska “reality” TV? Haines Borough said no when approached by a television production company, Engel Entertainment, about a reality show based on the Haines Police Department. Engel does “Northwood Law” based on a small town in New Hampshire as well as “Lone Star Law” based on a Texas community. Interestingly, one Haines assembly member researched the company’s New Hampshire program and discovered complaints in the community that the TV video filming, with its pressure for elements of drama, tended to change the behavior of local police officers.

HIGH-TECH NEW SPILL RECOVERY EQUIPMENT ARRIVES IN PRINCE WILLIAM SOUND: Edison Chouest is moving its new oil spill response equipment into Prince William Sound. The company conducted drills with Cordova fishermen under contract to assist in spills with its new-technology OSRB-1 barge. Fishermen involved in the exercise said they were pleased with capabilities of the equipment. Edison Chouest is taking over marine support to Alyeska Pipeline Service Co. from Crowley, which has had the contract since 1977.

MV TAZLINA IS LAUNCHED AT VIGOR KETCHIKAN YARD: The Vigor Industrial shipyard in Ketchikan launched the first of the two new “Alaska class” state ferries being constructed in the shipyard. The new MV Tazlina hit the water May 16. Work is still needed to complete the interior of the vessel, but a christening ceremony is set for July 14. The second ferry, MV Hubbard, is still under construction. The new vessels will operate mainly in Lynn Canal in Southeast Alaska.

Former Unalaska mayor Shirley Marquette has taken over as director of the Alaska Marine Highway System. Marquette, who has lengthy experience in marine transportation and with major seafood processors, will be based in Ketchikan.

SKAGWAY CRACKS DOWN ON VACATION RENTALS: Skagway is cracking down on a proliferation of vacation rentals by residential owners, through AirBnB and VRBO, because it limits housing needed for seasonal workers. Skagway’s assembly approved a conditional use permit system to regulate the rentals.

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