RESOURCE review

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Investors warn Alaska is trailing as an attractive place to invest capital

Alaska is becoming a less attractive place for the oil and gas industry to invest its capital for new exploration and development, according to an extensive annual survey.

A study of the many factors that go into an oil company's decision on where to invest – whether the North Slope, the Lower 48 or abroad – has shown Alaska is becoming less competitive for attracting new development dollars.

The Fraser Institute's survey of industry views of various petroleum jurisdictions around the world showed Alaska trailing most Lower 48 energy states as an attractive place to invest capital, with the exception of California and Colorado.

The survey responses have been tallied to rank states, Canadian provinces, and countries by the severity of investment barriers such as high taxes and costly regulatory schemes, among others.

Fred McMahon, Vice President of Research at the Fraser Institute, noted California is considered to have the most unfriendly, anti-business climate in the U.S. and that Alaska ranks almost as poorly when 16 policy factors affecting investment decisions are considered. McMahon spoke about the survey at the Alaska Support Industry Alliance's Meet Alaska conference in Anchorage January 22.

The survey ranked 143 jurisdictions throughout the world and an all-inclusive composite index provided an overall assessment of each jurisdiction. This process enabled the jurisdictions to be ranked into quintiles, with the first containing those areas most appealing for investment and the fifth listing the least attractive.

Overall, Alaska ranked in the second quintile, a satisfactory rating globally, but well behind most other U.S. states, which McMahon said is Alaska's main competition for investment dollars. The most attractive states in America for investment were Arkansas, Alabama, Kansas, Mississippi, Nebraska, South Dakota, Texas, Oklahoma and Indiana.

McMahon cautioned that Alaska could be in a similar position as Alberta, which has

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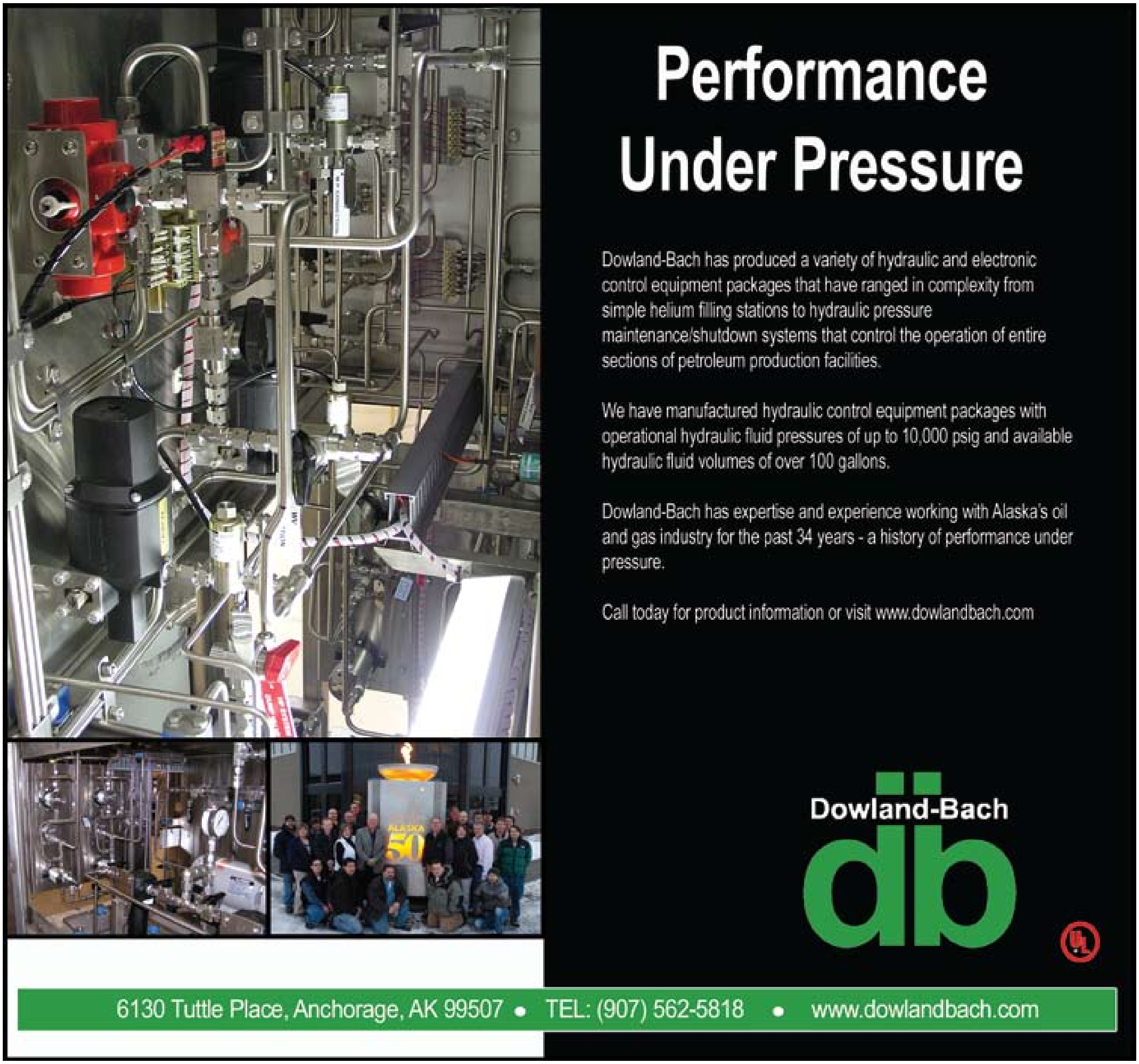
In This Issue



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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 (1978-2009) are available at akrdc.org.

Congress to look at Sealaska lands bill

Sealaska Corporation is expecting a hearing in the U.S. House in March on federal legislation which would convey to the Southeast Alaska Native corporation land it is owed under the Alaska Native Claims Settlement Act (ANCSA), which passed Congress in 1971. A mark-up is also expected on the bill in the Senate.

ANCSA established Sealaska and 12 other Native corporations as a result of the largest aboriginal land settlement in history. It promised to return productive acres of land to the corporations for the benefit of the Native people of their regions. However, land in Southeast Alaska has not been fully conveyed to Sealaska and the legislation would transfer the remaining acres.

Under ANCSA, Sealaska was eligible for up to 375,000 acres. Yet to date only 290,000 acres have been conveyed, leaving approximately 85,000 acres remaining.

"This legislation is the culmination of years of outreach," said Chris McNeil, President of Sealaska Corporation. He noted over 200 stakeholder meetings have been held around Southeast Alaska on the bill and to better understand the values and priorities of residents in the region. The CEOs of the regional Alaska Native corporations and the Alaska Federation of Natives strongly endorsed the bill.

Legislation was first introduced by the Alaska congressional delegation in 2008 to satisfy Sealaska's remaining land entitlements. Revised legislation was introduced by Senators Lisa Murkowski and Mark Begich last year to reflect public comments and concerns with the previous bill. Congressman Don Young introduced companion legislation in the House.

"The bill represents a number of changes from the original legislation and to meet local concerns with how selections might affect small communities," said Murkowski.

"Sealaska has been waiting far too long to complete its land entitlement from ANCSA," said Begich. "We need to move this legislation forward to finish the ANCSA entitlements but also to allow Sealaska and its shareholders to develop a sustainable economic future."

The revised bill would permit Sealaska to select new acreage on and around Prince of Wales Island for timber harvesting from a pool of about 78,000 acres, up to 5,000 acres of lands elsewhere in Southeast Alaska for non-timber economic development, and up to 3,600 acres for cultural and historic preservation.

In return, Sealaska would provide policy makers with the option to preserve 270,000 acres of roadless lands and over 112,000 acres of productive old growth timber that are presently available for selection.

"Under current law, much of the land available for selection is in inventoried roadless areas, intact watersheds, municipal watersheds, and high value fish and wildlife habitat important for subsistence resources and to commercial fisheries," McNeil said. "Sealaska agrees with many members of the conservation community that these lands are better suited for public ownership. This legislation will allow Sealaska to select land from outside the original withdrawal areas."


Chris McNeil, Jr.

Not only does Sealaska see the benefits of the bill, but so does other entities in the region, said McNeil. He noted more than 70 percent of the acres identified in the bill are in roaded areas. He said the bill provides for protection of old growth forest and unprecedented access for subsistence and recreational activities on economic development lands.

"I want to be clear that the legislation is fulfilling Sealaska's final entitlement of 85,000 acres – no more land than is originally owed to us under ANCSA," McNeil added.

New investment from Sealaska on lands made available through the legislation is hoped to provide a boost to the sagging Southeast Alaska economy. Prince of Wales Island suffers from unemployment rates of 24 percent and the state predicts the region's population will decline by 30 percent in rural areas and 25 percent in urban centers by 2030.

Before introducing the legislation, Murkowski requested assurances from Sealaska that the benefits of the legislation would flow to the overall Southeast Alaska economy. In response, Sealaska promised to maintain its commitment to create jobs for residents of Southeast Alaska, maintain its commitment to local mills and local producers of wood products through micro sale programs, collaborate with others to preserve the viability of the Southeast Alaska timber industry and work with local communities on energy issues.

A study conducted by the McDowell Group indicated that Sealaska is responsible for 580 jobs and approximately $22 million of payroll in Southeast Alaska. In 2009, Sealaska spent more than $41 million in support of its corporate and timber-related operations, benefiting approximately 350 businesses and organizations in 19 Southeast Alaska communities.

"Sealaska's land legislation is one of the most important economic stimulus measures available to Southeast Alaska, and with support, it can be passed in Congress," McNeil said. He noted a recent survey of residents in the area revealed that communities' beliefs and priorities are aligned with the benefits of the legislation.

Of 600 residents surveyed, 79 percent supported growing and diversifying the regional and local economy while protecting the environment. Seventy percent supported using reasonable and responsible practices which allow current natural resource-based business like logging and milling to provide jobs and economic stability for communities.

Asked to rate their priorities, 62 percent of Southeast Alaska residents said creating jobs and improving the economy is their highest priority. Fifty-six percent rated protection of streams and rivers as their highest priority and 49 percent said protection of the environment was the most important priority.

"These goals are not mutually exclusive," said RDC Executive Director Jason Brune. "The Forest Practices Act ensures protection of the environment while affording opportunities for sustainable development."

Of those responding to the survey, 43 percent lived in Juneau, Alaska's capital, 12 percent were from the fishing port of Sitka and 10 percent resided in Ketchikan.

Industry warns Alaska is becoming less competitive

(Continued from page 1)

declined significantly in recent surveys into the third quintile. Oil and gas production has dropped considerably in Alberta since a hike in royalties. The province is now considering reducing government's take to restore its competitiveness.

"To some extent this shows you what can happen if a jurisdiction comes to rely on oil and gas and thinks that it basically inherited the family mansion and doesn't have to worry about being competitive anymore," McMahon said. "I think to some extent that's what's been going on here in Alaska."

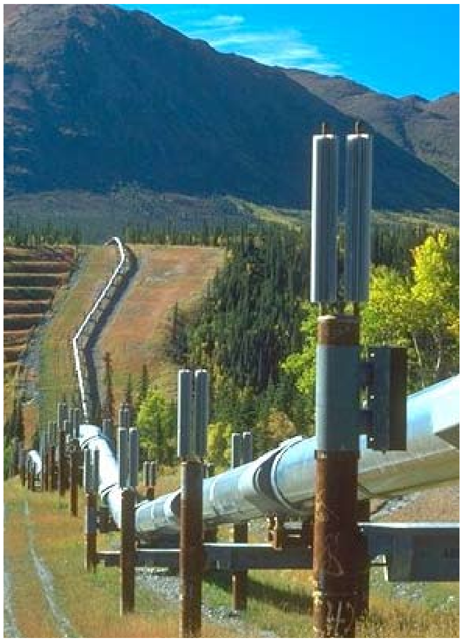
With regard to individual factors, Alaska is positioned near the middle of the pack on a global basis when it comes to fiscal terms, but that also means at least 50 percent of other jurisdictions are more appealing for investment. The state, however, ranked low in the category of environmental regulation. Onshore Alaska rated third from the bottom, even well below Norway, which has a reputation of having high environmental standards.

"It isn't because Norway's regulations are weak. They aren't. This is because Alaska's are uncertain and difficult," McMahon said.

McMahon said Alaska will need to build certainty and trust within the oil industry, especially with respect to regulation and taxation, if it expects to be successful in attracting the industry investment necessary to offset declining production. He said this doesn't mean Alaska needs to reduce environmental protection. It suggests establishing a regulatory climate that is predictable and sensible.

Determining tax policy should not be a zero sum game, with both the state and the industry trying to secure as much as possible from a fixed production and revenue pool, said Scott Goldsmith, economist at the Institute of Social and Economic Research at the University of Alaska Anchorage.

"There's some level of taxation and other fiscal policy that gets us to the sweet spot, that accommodation of production, employment and revenue that maximizes benefit to the state, not just today, but for the foreseeable future," Goldsmith said. Maximizing benefits to the state requires finding the right balance for fiscal policy, one that encourages future production, which in turn results in higher revenues for Alaska, Goldsmith explained.



As much as $40 billion in new investment may be required in the next ten years to prevent the decline in Alaska oil production from accelerating beyond six percent annually. Some 38 percent of the state's projected production in 2015 is expected to come from new fields.

"There's some level of taxation and other fiscal policy that gets us to the sweet spot, that accommodation of production, employment and revenue that maximizes benefit to the state, not just today, but for the foreseeable future."

**– Scott Goldsmith
University of Alaska
Anchorage**

Goldsmith urged the state to put more effort into finding that "sweet spot" and suggested an inventory of potential petroleum investments and an analysis of their likely sensitivities to different tax rates.

Larry Archibald, ConocoPhillips' senior vice president for exploration and business development, said investment on state land in Alaska isn't competitive with investment opportunities the company has elsewhere. As a result, ConocoPhillips isn't exploring in Alaska this year, the first time since 1965.

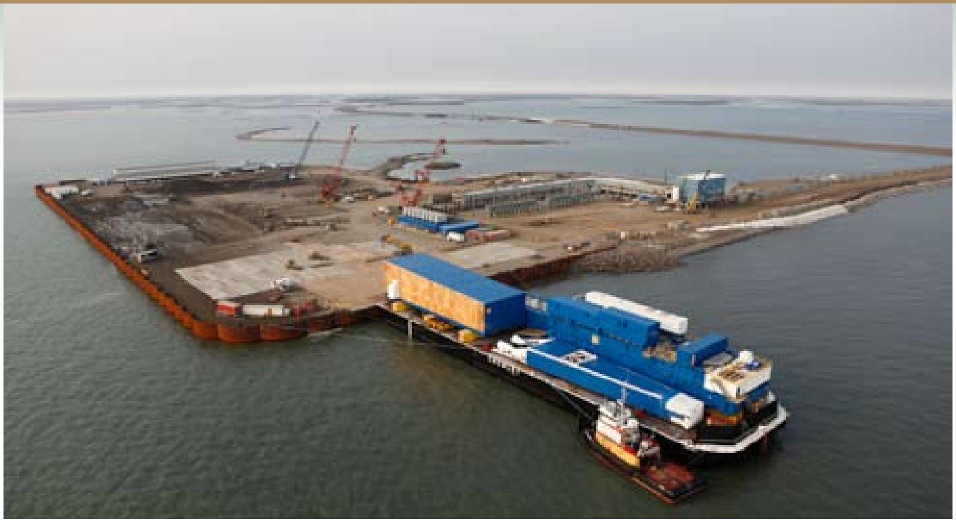
Archibald pointed out industry is unable to drill some of the world's most technical and expensive wells into challenged reservoirs without adequate fiscal terms. He said existing fields on the North Slope represent the best chance for significant reserve replacement, but warned the state tax on these fields – the highest on the Slope – has contributed to low reserve replacement.

Alaska now has the highest energy taxes in the U.S. since the implementation of Alaska's Clear and Equitable Share (ACES) in 2007. The multi-billion dollar tax hike increased production taxes by 50 percent from 2007 and 350 percent from 2006, based on an oil price of $80 a barrel. It also includes an aggressive "progressivity" formula that boosts the tax rate as oil prices rise.

At current oil prices, the production tax rate is 40 percent of net revenues, and total government take on a barrel of oil is between 65 and 70 percent, including royalties and all government taxes at the local, state and federal levels.

At higher oil prices, production tax rates can reach 75 percent, and total government take on each additional $1 in price can exceed 90 percent. This virtually eliminates the upside on investments at higher oil prices, giving oil companies little incentive to incur the risks inherent in Alaska development and putting the state at a significant competitive disadvantage with other oil and gas regions where companies can invest and earn more.

With regard to exploration and development on federal lands in Alaska and offshore, Archibald said access and permitting policies are poor, but fiscal terms are adequate, although moving in the wrong direction. The opposite is the case on state land where access and permitting is better, but fiscal terms are poor.



BP has cut its drilling footage in existing state fields by more than 50 percent since tax hikes were implemented in 2007 and will cut its Alaska capital budget by 15 percent this year. However, the company is moving ahead with its Liberty prospect (pictured above) which falls outside the state's tax regime in federal waters.

"It's within the control of the federal and state government to change a lot of those conditions," he said. "We see more stability in many of the third-world counties we explore in than we've seen lately in this state."

At a recent hearing in Juneau on oil taxes, ConocoPhillips' Wendy King cited a 17 percent decline in development well drilling and deferral of $2 billion in field projects since 2007. She noted that core drilling activity is not tracking the rise in oil prices and the progressivity factor in ACES is probably a key factor in Alaska's deteriorating rig count.

King noted that approximately $40 billion in new investment will be required in the next ten years to develop new fields and prevent the current six percent annual decline in North Slope production from accelerating.

At the hearing, Marilyn Crockett, Executive Director of the Alaska Oil and Gas Association, warned "tax rates under ACES are too high and overshoot the optimum point where total state revenues, Alaska jobs and economic growth are maximized" for the remaining life of North Slope fields.

Meanwhile, BP reported in January that its drilled footage is down more than 50 percent since 2007 and is now at the lowest level since 1999, when oil was $17 a barrel. The company cut its Alaska capital budget by 15 percent this year and says its investments in development projects that boosts production and state revenues are down 30 percent in three years.

RDC Executive Director Jason Brune said it is imperative the state have the right tax and royalty policies in place to attract the industry investment necessary for new exploration and development, as well as new production from existing fields. He also pointed out that 38 percent of projected production in 2015 is expected to come from fields that are not yet in production.

"Yet Alaska appears to be heading in the wrong direction, Brune said. "Capital spending by Alaska's major oil producers has fallen and a disproportionate share of spending has been directed to maintenance projects, which do little to generate new production." He noted 2010 will bring the number of exploratory and development wells to their lowest levels in a decade on the North Slope, where production is down 80,000 barrels since 2007.

"RDC finds these trends alarming and the lack of investment where it matters most indicates the production decline is likely to accelerate well beyond state projections," warned Brune.

Apparently, Brune and industry leaders are not alone in their concerns about Alaska's investment climate. The Anchorage Economic Development Corporation Index Survey revealed that 68 percent of Anchorage businesses believe Alaska's oil and gas tax environment discourages oil production on the Slope.

"The oil industry is a global business and companies will invest their capital where they get the larger, risk adjusted returns," Brune said. "The investors are warning us Alaska is not globally competitive. We need to listen to what they are telling us."

ConocoPhillips to appeal Corps' NPRA decision

ConocoPhillips is appealing a decision by the U.S. Army Corps of Engineers rejecting a major permit application to construct a bridge across the Colville River to access oil deposits inside the National Petroleum Reserve (NPRA).

"We are disappointed with the Corps of Engineers decision," said ConocoPhillips spokeswoman Natalie Lowman. "We have diligently tried to permit this project for almost five years and we intend to exercise our right to appeal the denial."

The project includes a new drill pad, one major and two smaller bridge crossings, and a six-mile road connection to facilities at Alpine.

ConocoPhillips applied for permits in 2008 to develop what would be the first oil from the petroleum reserve. The company had local and state support for the project but both the Environmental Protection Agency and the U.S. Fish and Wildlife Service opposed the project, citing overriding national interests and aquatic values.

The Corps said there are other alternatives, that would have less impact on the ecosystem, including taking oil to Alpine via a pipeline drilled under the Nigliq Channel. EPA suggested extended-reach drilling from existing Alpine facilities. However, ConocoPhillips noted orientation and low permeability of the CD-5 reservoir make such an option highly challenging, and there are drawbacks to an underground pipeline.

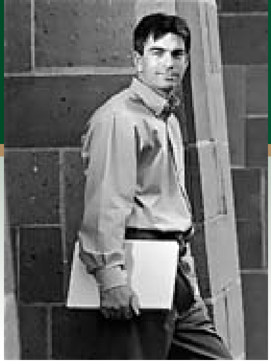
The CD-5 project represents more than $600 million in investment and 400 direct new jobs and hundreds of support jobs.

Senator Lisa Murkowski pointed out that for decades those who oppose developing a portion of ANWR or Alaska's offshore fields have continually cited NPRA as the area where development should occur instead. Murkowski warned if a producer cannot get across the Colville River, NPRA's resources are off-limits.

"I am alarmed and amazed by this short-sighted decision, which totally ignores the economics of future energy development in all of northern Alaska," Murkowski said. "Directional drilling can work in ANWR because the oil is concentrated in the northwest corner. That is an entirely different situation than the vast and widely distributed deposits in the NPRA, however, and the administration knows it."

"If allowed to stand, this decision will kill all future oil development from the nation's largest designated petroleum reserve," Murkowski said.

Senator Mark Begich echoed concern. "After the parties worked together for years to get agreement on NPRA development, I am deeply disappointed the first project just got knocked off track," Begich said.



From the Tongass to ANWR: The role of misinformation in blocking development

The wise use of Alaska's resources has been stymied by myths and misinformation. Opponents of ANWR have convinced a considerable segment of the Outside public that development will harm caribou. Yet, the Central Arctic herd has grown from approximately 5,000 animals prior to development of Prudhoe Bay to approximately 67,000 animals today. We see daily ads claiming that there are no standards governing mining, even though a large mine requires dozens of permits to operate.

Misinformation is a potent arrow in the quiver of those who seek to stop resource development. It is easy to spread misinformation, but exceedingly difficult to counter it. Misinformation influences resource development by fueling initiatives to limit access to resources, by threatening existing industries with economic constraints that discourage investment, and by influencing the views of persons who make decisions on resource projects.

Access to resources is critical for the long-term sustainability of any industry. Opponents of resource development have concluded, rightly, that the best way to stop an industry from taking hold, or in hastening its decline, is to withdraw areas from the land base otherwise available for exploration and development. This is playing out right now in the Alaskan Outer Continental Shelf where the real debate is not whether development can occur in a responsible way, but rather, whether there should be any development at all.

In the Tongass National Forest, opponents of timber harvest pursued a sophisticated campaign which led to 90% of the forest being closed to commercial timber operations. The resultant land base was not enough to sustain the industry, leading to a collapse of the industry in the late 1990s. At the federal level, policies to implement marine spatial planning (aka "ocean zoning") are contemplated in 2010, premised upon beliefs that existing regulatory programs are wholly inadequate to protect marine ecosystems.

Cutting off access to resources is not the only way to stop the wise use of natural resources. Existing industries can be weakened, or even shut down, by undercutting the economics necessary to attract capital.

Tax policy is fertile ground for misinformation, leading to tax regimes that drive capital to more favorable jurisdictions. Another strategy that is gaining momentum is to impose purported "environmental" requirements on industries through legislation or the initiative process. These requirements masquerade as environmental standards – and hence, are difficult to counter – but in many instances have no rational connection to environmental protection and are, instead, designed to impose operational constraints rendering operations uneconomic.

In the case of Alaska's Ballot Measure 4 mining initiative, the constraints sought by initiative supporters would have made it economically infeasible to develop and operate large hard rock mines. At the federal level, opponents of mining are pursuing a campaign – fueled by misinformation that existing state and federal programs are inadequate to protect the environment – to require mines to be bonded by EPA under Superfund.

Last, misinformation plays a significant role in influencing governmental officials and the decisions they make on natural resources projects and land management decisions. The courts are the final arbiters on many resource projects, and judges bring their own views to bear on the relevant issues.

The "Roadless Rule" case exemplifies the divergent views that judges can have on the same set of facts. In that case, the Ninth Circuit Court of Appeals was faced with the question whether to uphold a regulation, promulgated in the final days of the Clinton Administration, prohibiting development in millions of acres of federal lands. In his decision upholding the regulation, Judge Ron Gould described the purpose of the Roadless Rule as "benefiting the environment, and the public's interest in preserving precious, unreplenishable resources." (Never mind that trees are a renewable resource.) The dissent, authored by Judge Kleinfeld from Fairbanks, stated "What we have here is a case where the agency attempted a massive management change for two percent of the nation's land on the eve of an election …The Roadless Rule does not preserve the status quo. It changes it, massively, for two percent of the entire land area of the United States. And by increasing the risk of forest fires, it threatens additional land and people."

The Alaska timber industry faced a perfect storm of misinformation in the 1990s, focused on cutting off access to timber, undermining the economics of timber sales and manufacturing facilities, and influencing the agency and judicial officials overseeing key decisions. Although the companies had strong statewide support, employed thousands of workers, and had prospered over a 45-plus year history, the Alaskan industry experienced a rapid collapse over a relatively short six-year period. In assessing the collapse of the Alaska timber industry, several "lessons learned" are clear in hindsight.

First, compromise was not a successful strategy. Efforts to reach peace on land withdrawals led to demands for more withdrawn lands.

Second, misinformation is particularly hard to overcome when critical decisions are made in Washington, D.C. Even though the timber industry harvested only 7% of the old growth timber in the Tongass, there was widespread belief by key decision-makers that little old growth remained.

Last, even the strongest industries are not too big to fail if their economics have been fatally compromised. The withdrawal of lands available for timber harvesting created a situation where there was not enough economic timber to supply manufacturing facilities, which made it impossible to attract capital.

Eric Fjelstad is an attorney with Perkins Coie LLP and serves on the Executive Committee of the Resource Development Council.

TransCanada optimistic, looks to open season for gas line this spring

TransCanada told lawmakers in Juneau in early February that its joint Alaska gas pipeline project with ExxonMobil is right on track, despite skepticism by some in Juneau surrounding the economic viability of the project, given rising costs and competition from other gas suppliers in the Lower 48.

"It's our view as a pipeline sponsor that it is viable, but it will be up to the customers to decide their own views in the initial open season," said Tony Palmer, TransCanada's Vice President, Alaska Development.

TransCanada filed its open season plan with the Federal Energy Regulatory Commission in late January. The plan covers two options that are part of TransCanada's Alaska Gasline Inducement Act application: a pipeline from the North Slope to Alberta and one from Prudhoe Bay to Valdez. Both options include access to North Slope gas for Alaskans, a gas treatment plant on the Slope and a pipeline from the Point Thomson field.

Approximately 35 trillion cubic feet of natural gas has been discovered on the North Slope and much more is likely in place outside developed fields. More than 135 trillion cubic feet of recoverable reserves could exist when offshore potential is included.

Cost estimates range from $32 billion to $41 billion for the Canadian project and $20 billion to $26 billion for the all-Alaska line. The latter option does not include costs for liquefaction facilities or ships, which would be the responsibility of the shippers.

While cost estimates for both options were higher than anticipated, better commercial terms are expected to save shippers $500 million a year in tariffs. TransCanada said either option would be completed by 2020.

In the open season, which will begin in May and run through July, TransCanada will solicit bids from producers for long-term space commitments on the pipeline for shipping Alaska gas south. The Canadian option would carry as much as 4.5 billion cubic feet of gas a day.

Meanwhile, a rival project proposed by oil and gas producers BP and ConocoPhillips is preparing for its open season later this summer. Both open seasons could help determine whether there is sufficient demand for a pipeline to move forward. There is widespread concern that producers will not make the firm offers necessary to secure financing for the project. Companies that bid in the open season for either project are expected to include many conditions and contingencies for shipping their gas, including reasonable and predictable fiscal terms.

Palmer said TransCanada will work to resolve by the end of the year conditions it has the ability to solve and will leave it up to the Legislature to address fiscal concerns.

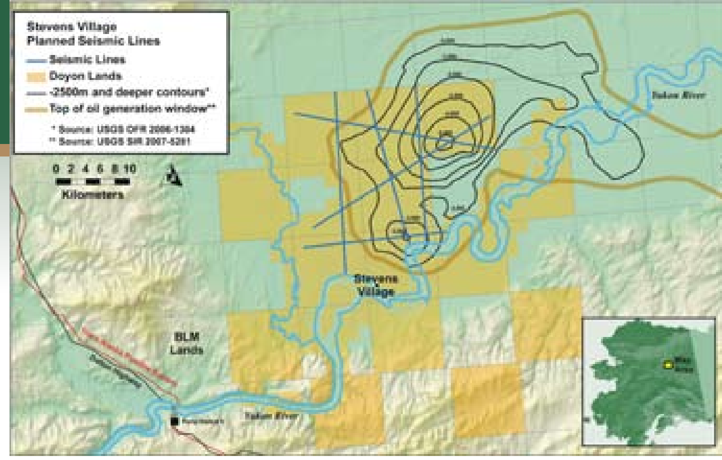
A gas pipeline project is vital to Alaska's long-term economic future, but in recent years technological breakthroughs in tapping huge shale gas deposits in Texas, Louisiana, Pennsylvania and elsewhere have left some questioning whether Alaska gas is needed. Skeptics wonder how energy companies can afford to spend $40 billion for an Alaska-Canadian gas pipeline and get a sufficient return on their investment when enormous shale gas deposits and a weak economy are likely to keep gas prices in the basement. They note that the Lower 48 may now have a century's worth of gas.

But not everyone believes the Alaska gas pipeline project is in jeopardy. Proponents note shale gas is expensive to produce and faces environmental challenges and opposition from some local communities. Moreover, both private and government sources point out that U.S. energy markets could see a significant shift in the new decade toward increased natural gas utilization, especially if it is mandated by new federal or state laws.

Governor Sean Parnell is optimistic about a gas pipeline, saying the demand for clean-burning natural gas will only grow as the nation reduces emissions to address climate change. Energy officials in his administration believe shale gas concerns are overblown and that there will be sufficient demand for Alaska gas over the long term.

Ed Kelley, a gas analyst for the energy consulting firm Wood Mackenzie, told the Wall Street Journal in late January that it is important to remember Alaska gas is "not competing with shale gas now, it's competing with shale gas 10 to 15 years from now."

Doyon to explore Yukon Flats for oil and gas



Stevens Village is one of the locations of several deep sub-basins in the larger Yukon Flats area.

Doyon Limited, the regional Native corporation for Interior Alaska, is moving forward with new oil and gas exploration this winter in the Yukon Flats.

The company's efforts will begin with the gathering of about 95 line miles of 2D seismic data on Native lands north of Stevens Village. The 200,000-acre block of land is owned by Doyon and Dinyee, the village corporation for Stevens Village. The area is 10 to 15 miles from the trans-Alaska oil pipeline corridor.

Access to the area and data gathering will be conducted via helicopter and snow machine.

New studies undertaken by the U.S. Geological Survey in recent years indicate that the Stevens Village area may hold significant promise for economic concentrations of natural gas and oil.

Norm Phillips, Jr., President and CEO of Doyon, said "our efforts in the Yukon Flats this winter are part of a multi-year plan to conduct additional exploration on a variety of natural resource projects on Doyon lands, add significant value and thereby attract other companies to conduct follow-on exploration. An important part of this plan is to work closely with local communities to assure a meaningful economic stake in any project."

Jim Mery, Doyon's Senior Vice President of Lands and Natural Resources, said "with any positive results this winter, we intend to generate new industry exploration interest, not just at Stevens but also on other Doyon lands near Birch Creek where earlier seismic efforts show a favorable subsurface setting for hydrocarbons."

The Yukon Flats is a 15,000-square mile lowland area near the Yukon River and between the oil pipeline and the Canadian border. The area contains a geologic basin with substantial energy potential.

A large part of the basin is within the boundary of the Yukon Flats National Wildlife Refuge, and for a number of years Doyon had been working with the U.S. Fish and Wildlife Service to negotiate a land exchange to consolidate some of the more prospective areas of the basin into Doyon ownership. But the swap was turned down by the federal government after opposition from environmental groups and some local residents.

However, Doyon said new studies have convinced it that some of its existing lands in the flats are more prospective than was earlier thought and it has now decided to proceed with exploration. Ironically, the land exchange would have resulted in a net gain of wetlands and wild lands for the refuge, as well as revenues to the federal government from oil and gas production.

An assessment of the basin's potential indicates the possible existence of 300 million to one billion barrels of oil and up to 1 trillion cubic feet of natural gas. The area could contain two or more Alpine-size fields. Alpine is the third largest producing field on the North Slope.

Appeal may force Red Dog to suspend production

Environmental groups and village tribal councils from Kivalina and Point Hope are appealing a critical federal permit required for the Red Dog Mine in Northwest Alaska to continue operating. Red Dog is the largest mine in Alaska and is the foundation of the region's economy, accounting for hundreds of jobs and the entire tax base of the Northwest Arctic Borough.

"There is no environmental benefit to the appeal," said Rosie Barr, NANA's resources manager. "However, this appeal is a direct threat to the social, cultural, environmental and economic benefits our shareholders receive from the mine and that is very troubling to us." NANA owns the land the zinc, lead and silver deposit sits on.

Teck Alaska, the operator of Red Dog, said it may have to suspend production in October if issues surrounding the permit are not resolved by May. Once the mine is shut down, it would take at least 18 months to bring it back on line. Halting production would severely impact NANA, local residents who depend on the mine for their livelihood and the Northwest Arctic Borough.

Red Dog has nearly exhausted the ore in its main pit and needs a federal water discharge permit to begin developing the Aqqaluk deposit in an adjacent second pit that could extend the mine's life by 20 years.

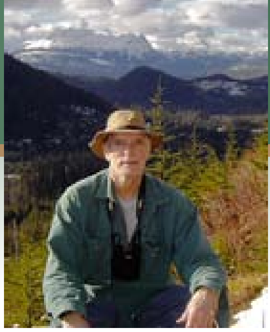
The EPA issued a revised water discharge permit in January which establishes more realistic water quality standards compared to the previous permit. Federal and state regulators said the new standards in the permit will be fully protective of human health and the environment. The previous standards were technically non-achievable when set.

Those parties pursuing the appeal claim that several parts of the permit do not comply with the Clean Water Act, even though the State certified the permit was compliant. Specific issues being appealed include mixing zones, effluent limitations, anti-degradation and treatment technology.

The groups opposing the permit claim water discharges from the mine would degrade Red Dog Creek, but 20 years of operations at the mine do not support such claims. A study conducted by the Alaska Department of Environmental Conservation concluded that treated water discharges from the mine has actually improved water quality in Red Dog Creek by diluting the naturally occurring acidic and metal-laden water.

Pre-mining surveys done in the area in the 1980s found no fish and other aquatic life in Red Dog Creek because of the toxic concentrations of naturally-occurring minerals in the water. However, because of effective water management practices and treatment, fish populations and aquatic productivity in the waters downstream from the mine have increased. Government regulators say the new permit would retain the improved water quality and protect fish.

Teck defended the regulatory process, calling it robust and appropriate.



Guest Opinion - Owen Graham

Transition to young-growth timber is far off in the Tongass

There has been a lot of talk lately about the need for the timber industry in Southeast Alaska to transition to young-growth timber harvesting. This transition concept is being promoted like it is some new idea and that it can be completed quickly. The transition is not a new concept and it will not be complete any time soon. The forestry profession has always been about growing young trees and transitioning out of the old-growth timber. Young-growth timber is much more uniform than old-growth, young-growth is essentially defect free and young-growth stands will have double the volume of timber per acre that exists in most old-growth stands.

Early foresters spoke in terms of sustained yield and the acreage of timberland needed to sustain manufacturing facilities in perpetuity. In 1909 shortly after the Tongass National Forest was established, government foresters completed an initial assessment of the commercial timberland and by the 1930s researchers (RF Taylor - 1934 and Meyer - 1937) had completed the first growth and yield tables which were indexed by site conditions for the Tongass. These yield tables allowed foresters to calculate the harvest age that captures the maximum growth potential for stands of timber on various growing sites.

Trees grow like people, slowly at first, then rapidly for a period of time, then slowly again. The peak growth is referred to as the Culmination of Mean Annual Increment. The Forest Service is obligated by the National Forest Management Act to defer rotational harvest until a stand achieves this culmination. If the trees are harvested too soon the growth potential of the land will not be maximized. Growing the trees beyond the optimum date would result in larger, more valuable trees but again, the maximum growth potential of the land would not be achieved and additional acres would have to be managed for growing and harvesting timber in order to compensate for harvesting the timber before the fast-growth period had ended.

In addition to optimizing the growth potential of the land, the economic value of the young trees must be considered. 96% of the young-growth available under the current forest plan is less than 50-years old. At age 50, most of the trees in a typical stand of timber are less than eight inches in diameter and their value is much less than the cost of harvesting. In contrast, the same trees will be about sixteen inches in diameter and will be much more valuable at the optimum harvest age of around 100 years.

The Tongass National Forest covers more than 90% of Southeast Alaska and, according to the 1989 Forest Service Benchmarks publication, the commercial timberland on the Tongass that is not set aside in congressional reserves would sustain an annual harvest level of nearly two billion board feet of saw timber. However, only a small percentage of the forest is needed or scheduled for harvest. In 1966, the maximum allowable harvest level was 825 million board feet, in 1980 the level was dropped to 450 million board feet and in 1997 the level was dropped once again to the current level - about 230 million board feet of saw timber (267 million board feet including utility/pulp logs). It is unlikely that the timber industry will have sufficient economy of scale to be cost competitive at the 230 million board foot harvest level, but for now that is irrelevant because, with the current availability of timber sales at less than 50 million board feet per year, the industry is struggling just to survive.

In a 2004 young-growth management paper (Barbour – 2004), the Forest Service explains that "Under the current plan future harvests from federal land will ensure that the land base available for young-growth management increases in each decade until harvest of young-growth timber replaces old-growth harvests about 50-60 years from now." The authors of that paper are correct; the last thing we need right now is a premature transition to harvesting our young-growth timber.

Owen Graham is Executive Director of the Alaska Forest Association.

State intervenes in Roadless Rule lawsuit

In response to lawsuits filed in federal court that again threaten the Southeast Alaska timber industry, Governor Sean Parnell directed Attorney General Dan Sullivan to file motions for intervention in those cases to uphold the state's interests and to protect the region's economy.

The State of Alaska has sought intervenor status in two cases: To uphold Alaska's exemption in the Tongass National Forest from the Forest Service's "Roadless Rule," and to support the Forest Service's authority to proceed with the overall Logjam timber sale and the pending Diesel timber sale.

"Our timber jobs are at stake; we have many businesses and families that depend upon timber in the Tongass," Governor Parnell said. "We'll use every tool at our disposal to make sure that the exemption from the roadless rule remains in place and that the Diesel sale can proceed."

The Forest Service acted within its authority and discretion, said Attorney General Sullivan. "The Tongass exemption came as the result of a settlement agreement with the state, after the state had filed a complaint that the roadless rule violates federal statutes pertaining to Alaska, including the Alaska National Interest Lands Conservation Act," said Sullivan. "If the exemption is repealed or permanently enjoined, the state might have to renew its challenge to the roadless rule itself. It's about the future of the commercial timber harvest in the Tongass."

While the current forest plan leaves 2.4 million acres in backcountry areas open to logging, only 663,000 acres would actually be scheduled for harvest over the next 100 years, and half of that acreage is second-growth timber cut decades ago. The 663,000 acres represents only 12 percent of the commercial timberlands. 200 years from now, 83 percent of the current old-growth would remain intact in the forest.

Message from the President - Wendy Lindskoog

RDC's 2010 Legislative priorities

As this year's legislative session shifts into high gear, the RDC Board of Directors is preparing to visit Juneau to advance its 2010 policy positions. These administrative and legislative priorities will guide RDC's advocacy efforts throughout the year. The 2010 policy positions reflect the many issues important to the membership. RDC's top priorities this session include:

• *Advocate for equitable and predictable tax and royalty policies for all industries that enhance the State of Alaska's competitiveness for natural resource exploration and development investments.*

• *Support efforts to ensure Alaska's ballot initiative process is open and transparent.*

• *Encourage the State of Alaska to promote and defend the integrity of Alaska's permitting process.*

• *Support the State of Alaska's efforts to challenge unwarranted Endangered Species Act (ESA) listings and proposed critical habitat designations.*

Equitable and predictable fiscal policies

Given resource development is the lifeblood of Alaska's economy, it is imperative the state have the right tax and royalty policies in place to attract the investment needed to develop our resources and therefore sustain our economy.

There is a world of opportunity for companies engaged in resource development. Make no mistake, they will develop the prospects within their global portfolios that offer the best returns, whether here in Alaska or abroad.

It is not enough that Alaska is rich in oil, gas, minerals and other resources because industry faces substantial risks and high costs in the arctic and sub-arctic. Even though Alaska oil, gas and mineral deposits may be world-class in size, the economics of developing these resources are highly challenging, given their remoteness and high power generation costs. The state can mitigate some of these challenges by creating a warmer business climate in Alaska, one that has attractive and highly competitive fiscal terms that compel industry to invest here.

While much of the attention right now is on attracting the investment needed to reverse the decline in North Slope production and increase throughput in the oil pipeline, Alaska also needs a fiscal and regulatory environment that restores the cruise ship and tourism industries in our state and encourages new mineral exploration and development.

Ballot initiative reform

Although we may sometimes question the appropriateness and the role of the ballot initiative process as a means of governing, RDC appreciates the rights of Alaskans to change state law through the initiative process. However, as we have seen over recent years, a number of proposed initiatives have been brought forward that do not have the best interest of the state nor its people in mind. Furthermore, tactics are often used in the signature gathering process that mislead the public and misconstrue the issues and impacts at play.

See RDC's state and federal policies:
akrdc.org/legislature

RDC agrees that standards must be put in place to ensure a candid process. We applaud Governor Sean Parnell for pledging his support for initiative reform and thank Representative Kyle Johansen for sponsoring HB 36, which will bring openness and transparency to the process.

Defend the integrity of the State's permitting process

On the regulatory and permitting front, the state must defend the integrity of its permitting process. Numerous state, federal and local government permits and approvals are required before resource development projects can move forward. The state works cooperatively with industry, federal agencies and the public to ensure that projects are designed, operated and reclaimed in a manner consistent with the public interest.

Our permitting process, environmental standards and laws are second to none anywhere in the world. Yet opponents of resource development have aggressively attacked the process, even going as far in television and radio ads to claim that Alaska has no standards and developers can dig up as many miles of salmon habitat as they desire. Of course, nothing could be further from the truth. The state needs to step up, defend the process and clearly demonstrate Alaska development is highly regulated by a robust and rigorous process that protects the environment and the public interest.

Support State's efforts to challenge unwarranted ESA listings

RDC will be encouraging the Legislature to support the State's efforts in challenging unwarranted ESA listings, one of the greatest threats to Alaska's natural resource-based economy. Recently Governor Parnell warned that energy development, both onshore and offshore of the North Slope, is in jeopardy by proposed critical habitat designations for the polar bear. The Governor noted "some are attempting to use the ESA to shut down resource development." He vowed to not allow that to happen on his watch.

To the south, some 3,000 square miles near Anchorage have been proposed for critical habitat under the Cook Inlet beluga whale listing. At a recent RDC breakfast meeting, John McClellan, representing Tyonek Native Corporation, noted $18 billion worth of projects could potentially be impacted by this designation.

Attorney General Dan Sullivan pointed out there are two visions of the future of Alaska. "Ours is one in which responsible development proceeds apace and protections remain in place for wildlife, including polar bears, which we treasure. The other vision is one in which Alaska's resources are locked up, our economy languishes, we lose population and we lack the capacity to maintain schools, roads, bridges, harbors and airports, or to provide public safety. It is imperative that the latter vision does not become a reality." Indeed, the Legislature, through its actions, also needs to make sure the latter vision does not hit home.

On the federal front, RDC has provided President Obama and Congress with an overview of federal natural resource issues that affect Alaska. It includes RDC recommendations for the administration and Congress to consider as legislation and policies are developed to revitalize the economy, provide for the energy needs of America and responsibly develop natural resources domestically for the benefit of all Americans.

Industry digest

Jim Bowles
1952-2010

Alan Gage
1969-2010

Alaska lost one of its outstanding leaders in February when ConocoPhillips President Jim Bowles passed away unexpectedly, a victim of an avalanche south of Anchorage. Mr. Bowles was a major force in Alaska's oil industry and dedicated much of his personal life to advancing needy causes, including major contributions to the University of Alaska and the cancer center at Providence Hospital in Anchorage. Mr. Bowles loved Alaska and was an avid outdoorsman who lived life to the fullest.

ConocoPhillips employee Alan Gage, a gifted executive and important contributor to the company's capital projects group, also lost his life in the avalanche that took Mr. Bowles. Mr. Gage also revered the outdoors and took every chance he could to share his love of Alaska with his family and friends.

AlaskaACT visits Juneau, SeaTrade Convention in Miami

The Alaska Alliance for Cruise Travel (AlaskaACT) has been hard at work distributing the message that reduced cruise ship passengers to Alaska stands to devastate the tourism industry in the state.

In early February, statewide AlaskaACT members met with over 20 legislators and the Governor in Juneau. Discussed at length was the cruise ship head tax instituted by a ballot initiative in 2006, which has caused cruise lines to reroute some of their vessels away from Alaska. AlaskaACT members pleaded to the Governor and legislators to find a solution to attract business back to Alaska. Follow up visits and committee presentations to the Legislature are forthcoming.

AlaskaACT will also join the State of Alaska Department of Commerce, Community and Economic Development, the Alaska Travel Industry Association, and several statewide Convention & Visitor Bureaus at SeaTrade, an international cruise industry convention in Miami. AlaskaACT is leading the efforts to promote Alaska as a top cruise destination to the 10,000 cruise line executives, industry suppliers, and others that attend this convention.

RDC is playing a major role in this organization, comprised of businesses and individuals that directly benefit from cruise passengers in Alaska. To learn more and become a member of AlaskaACT, please visit alaskaact.com.

18th Annual Coal Classic Golf Tournament

Save the date! The 18th Annual Coal Classic will be held Wednesday, June 16th in Anchorage to benefit Alaska Resource Education (formerly AMEREF). Please visit akresource.org for updates.

Pebble foes to pay for violation

The Alaska Public Offices Commission (APOC) has approved a $100,000 settlement with high-profile opponents of the Pebble copper and gold prospect who promoted a 2008 ballot initiative that Alaskans ultimately rejected.

Despite having to make the largest payment ever to the State resulting from an APOC investigation, the consent decree between APOC and Bob Gillam, the Renewable Resources Coalition, and Alaskans for Clean Water resulted in no admission of wrong doing, but rather a commitment by these parties not to repeat the behavior again. APOC spent $198,610 in pursuing the investigation.

"The evidence clearly pointed to wrong doing and indeed, the original APOC staff report called for very stiff penalties and referral to the state Attorney General for criminal investigation," said RDC Executive Director Jason Brune. "Unfortunately, nothing in this agreement will deter similar actions in the future. If this type of slap on the wrist is what APOC will consent to or settle for given the facts in this case, it makes me start to wonder why we even have the commission in the first place. With this ruling, it sets the precedent for future campaigns to simply budget 1-2% into their races for post-election fines as a cost of doing business. We are very disappointed with the actions of the APOC commissioners."

The original complaints in the case were filed by RDC and the Pebble Partnership. The original APOC staff report supported 17 of 18 complaints. See the APOC report and updates on the issue at akrdc.org/issues/other/apoc.html.

Framework for federal coastal and marine spatial planning

The Council on Environmental Quality's Ocean Policy Task Force recently sought comments on a proposed framework for effective Coastal and Marine Spatial Planning (CMSP) for the U.S. With more coastline than all other states in the nation combined, Alaska may be significantly impacted by the proposed planning.

The proposed framework did not clarify the role of existing management procedures, nor did it address valuable science-based practices Alaska already adheres to. RDC encouraged the Task Force to consider how the framework may impact existing regulations, and if the impact will have any added benefit to the goals of the CMSP.

RDC urged the Task Force to involve stakeholders, from fisheries and processing to transportation and oil and gas leaseholders. RDC's comments can be found at www.akrdc.org/alerts/2010/cmspframeworkcomments.html

RDC supports Point Thomson Project at Anchorage hearing

RDC expressed its support for the advancement of the Point Thomson project at a public hearing in Anchorage last month, urging the U.S. Army Corps of Engineers to recognize the economic benefits of the project, as well as its importance to a successful Alaska gas pipeline project. As the federal agency compiles an environmental impact statement for the further development of the oil and gas field on the Beaufort Sea coast, it should also acknowledge the U.S. Fish and Wildlife Service's findings that the oil industry in Alaska has minimal impact on polar bears, does not pose a threat to the survival or recovery of the species, and is strictly regulated under the Marine Mammal Protection Act. See www.akrdc.org/alerts/2010.html

RESOURCE DEVELOPMENT COUNCIL

Growing Alaska Through Responsible Resource Development

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