

RESOURCE *review*

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A new resource assessment by the USGS estimates NPR-A may contain only a tenth of the oil previously thought to exist below the frozen tundra. However, the agency believes the energy reserve contains prolific world-class natural gas deposits. ConocoPhillips, Anadarko and Talisman (FEX) bought leases and embarked on an aggressive exploration campaign over the past decade in NPR-A. At left is ConocoPhillips' Noatak exploration well in 2007.

NPR-A energy assessment met with alarm

The U.S. Geological Survey (USGS) believes the National Petroleum Reserve Alaska (NPR-A) contains only one-tenth of the oil previously thought to exist there, basing its sharp downward revision on new data derived from disappointing exploration results in the 23-million acre reserve over the past decade.

USGS now estimates NPR-A contains 896 million barrels of oil, a 90 percent reduction from its 2002 estimate of 10.6 billion barrels. The new assessment indicates 53 trillion cubic feet of undiscovered conventional natural gas within NPR-A and adjacent state waters. That is 8 trillion cubic feet less than the 2002 estimate of 61 trillion cubic feet, but still more than double the 24 trillion cubic feet of gas discovered at Prudhoe Bay.

By comparison, the coastal plain of the Arctic National Wildlife Refuge (ANWR) is estimated to contain about 10.5 billion barrels of oil while federal waters in the nearby Chukchi and Beaufort Seas may hold up to 29 billion barrels of oil and 209 trillion cubic feet of natural gas.

Interestingly, the USGS acknowledged that the largest potential for undiscovered oil lies in Northeast NPR-A near Teshekpuk Lake, where little to no exploration has occurred. These highly prospective areas, covering 649,000 acres, have been deferred

from leasing by the federal government with the endorsement of environmental groups who have fought to block energy development in the area. An additional 1.57 million acres in Northwest NPR-A have also been deferred from leasing.

The federal agency now believes natural gas is the dominant energy resource in NPR-A. The highest potential for gas is in structural plays in South NPR-A.

The USGS says the new data indicate an abrupt change from oil to more gas prone resources in the reserve. Consequently, USGS said many of the newly drilled wells show an abrupt transition from oil to gas just 15 to 20 miles west of the Alpine field, located outside the northeastern boundary of the petroleum reserve.

NPR-A has been the focus of significant oil exploration during the past decade with discoveries made by ConocoPhillips in the northeastern part of the energy reserve, west of Alpine.

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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 (1978-2010) are available at akrdc.org.



Alaskans pack hearing to support Lease Sale 193

Alaskans from all walks of life and far corners of the state spoke out in force Tuesday, November 9 in support of oil and gas development in Alaska's Outer Continental Shelf. They came to a public hearing in Anchorage, hosted by the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEM), with a sense of urgency, presenting compelling testimony in favor of affirming Lease Sale 193.

Alaskans demonstrated how much they care about their state's economic future and the confidence they have in the safe and responsible development of the potentially enormous oil and gas resources in the Chukchi Sea. The hearing room was packed and when the meeting ended at 10 p.m., there were at least 35 waiting to testify. Some, like former RDC President John Shively, stood along a crowded wall for three hours waiting for their turn to comment.

Two-thirds of those attending wanted to put the agency on notice that they are not going to sit back any longer as endless litigation, delays, and gridlock stymie future development. With ANWR off the table indefinitely and future development in the National Petroleum Reserve-Alaska in limbo, they see the Alaska OCS as perhaps the last opportunity to reverse the decline in North Slope production. They understand that the sustainability of the Alaska economy will depend on some combination of oil and gas production from these federal areas, which represent the nation's best onshore and offshore prospects.

The meeting was held to hear public comments on the Draft Supplemental Environmental Impact Statement (SEIS) for Chukchi Sea Lease Sale 193 held in February 2008. The SEIS provided new analysis as directed by the U.S. District Court for Alaska in a July 2010 order. The SEIS concluded with a recommendation that the sale be affirmed.

Lease Sale 193 is the most successful oil and gas lease sale in Alaska's history, generating \$2.7 billion in high bids for 487 leases. The time required to get from lease sale to first production is estimated to be 20 years, yet to date, not one exploratory well associated with the sale has been drilled.

The Alaska OCS could hold up to 29 billion barrels of oil and 209 trillion cubic

feet of natural gas. In comparison, total North Slope production from state lands over the past 33 years has totaled 16 billion barrels. Access to the federal resources is critical, given TAPS is running at one-third of its 1988 peak and could be uneconomic to operate after 2020 without additional throughput. At that point, the state could lose 90 percent of its revenue base and much of its economy if the pipeline is forced to shut down prematurely.

It was very apparent Alaskans attending the hearing care deeply about the state's future economy and environment. Two especially compelling testimonies came from residents of Wainwright and Barrow. Both residents stated how important oil revenues are to their communities. Oil revenues, they said, provide jobs in the community, but also fund many infrastructure projects, including schools, roads, community buildings, and the very basic necessities.

Environmentalists responded by claiming a time-out is needed to conduct more studies. Others countered that Alaska's North Slope and OCS are now perhaps the most studied energy basins in the U.S. In the past decade alone, over 250 studies have been funded, with the majority focused on the Beaufort and Chukchi Seas. Over a half billion dollars have been spent on more than 5,000 independent studies since 1973. Leases issued under Lease Sale 193 were sold only after an exhaustive environmental analysis.

Others emphasized: 1) Alaska depends on energy production for the bulk of its economy; 2) The nation will import all the oil it does not produce domestically; 3) America continues to expand its percentage of imported oil; 4) the OCS can sustain Alaska's economy for generations, creating 35,000 new jobs.

Shell has spent \$3.5 billion in pursuit of an Arctic exploration program and is ready to commit billions more. Yet Shell waits upon an Administration to establish an Arctic policy to allow the permitting process to proceed, and it waits upon the courts to review an endless barrage of litigation.

Others urged the Obama administration to move forward, expressing concern that the permitting process and incessant litigation are chasing American industries overseas and

slowly sinking the American economy, while other nations benefit from our inactions and anti-business policies.

The latest comment period served as yet another bite at the apple, another opportunity to delay. However, Alaskans, both blue and white collar, union and non-union, refused to let Cheers-famed Ted Danson speak for them. Danson, who was billed by the media as the top attraction at the hearing, spoke in opposition to OCS development, urging more studies and delay. But despite the media coverage, which prominently highlighted Danson's views, Alaskans were the top attraction at this hearing.

The North Slope Borough, which did not testify at the hearing, has expressed a number of concerns about OCS development. RDC understands local concerns, but believes they can be addressed by effective mitigation measures. Moreover, Shell has committed to unprecedented provisions for prevention and spill response that go beyond what is required by law. These provisions give RDC a high level of confidence that development can occur safely.

RDC would like to acknowledge the efforts of RDC board member Ron McPheters for getting the union voice on record in support of OCS development. Specifically, we would also like to thank the following who offered testimony: Tom and Sam Maloney, Len Horst, John Shively, Dave Chaput, Paula Easley, Jeanine St. John, Maynard Tapp, Rebecca Logan, Joe Hegna, Jim Udelhoven, Stacy Schubert, Kate Williams, Dave Harbour, Sami Glascott, Vince Beltrami, Barbara Huff, Kurt Jackson, Keith Silver, Rep. Craig Johnson, Rep. Bill Stoltze, Senator-elect Cathy Giessel, Kevin Banks, Christine Klein, Chris Warren, Aves Thompson, Jeff Jones, and others.

Alaska has a bright future and has much to contribute to the nation with its abundant resources. All that is required are policies and key decisions encouraging development of these resources. Nothing less than Alaska's economy is at stake.

The comment deadline is November 30. We encourage all of our members to submit comments. Please see the RDC Action Alert at akrdc.org for details.

Shear magnitude of NPR-A revision questioned

(Continued from page 1)

The sharply revised estimates for NPR-A have been received with some alarm by Alaskans. Some geologists have questioned the shear magnitude of the revisions, given no recent drilling has occurred in the Teshekpuk Lake area or over some of the most prospective acreage high on the Barrow Arch. (Virtually all of the North Slope's commercial discoveries have been near the coast and north of an area known as the Barrow Arch.)

Moreover, the release of the new projections coincide with the Bureau of Land Management's (BLM) launching of a new planning process for the reserve, leaving some to question the timing of the USGS projections. The new plan will cover the entire reserve and determine which areas will be open to development. It will supersede other planning efforts of the past 15 years.

The State of Alaska is concerned the lower projections could provide BLM with cover to curtail future lease sales. This is a concern of Kevin Banks, Director of the Division of Oil and Gas, who noted the state would share with the federal government revenues from new oil production in NPR-A. The state would also benefit from increased throughput in the oil pipeline, which is running at one-third of its peak flow set in 1988.

Alaska geologist Ken Boyd said that since the USGS was apparently able to use some of the new data from recent exploration and 3D seismic surveys in its recent assessment, additional credence should be given to the results. "That said, they are extrapolating these new data over a huge area – 23 million acres," Boyd said. "There is one part of NPR-A that does not have any new data and it is the area some believe may be the most prospective. For a variety of reasons – some environmental and some political – the northeast corner of NPR-A has not been included in any of the recent lease sales."

Boyd said "until the northeast acreage has been made available for lease and exploration is allowed to take place, I don't believe the full story of NPR-A has yet been told. Unless and until this area is open for exploration, I think any evaluation remains incomplete."

Geologist Richard Garrard called the new

USGS has cited disappointing exploration results and other data in sharply cutting its estimate of potential oil reserves in NPR-A. However, no drilling has occurred in the Teshekpuk Lake area where approximately 649,000 acres of prospective lands have been deferred from leasing.



resource assessment "controversial" and said that "before the new numbers can be taken seriously, some independent audit by other organizations should be considered." Garrard said such an effort might be undertaken collaboratively by representatives from the various federal agencies, the state, and industry.

Garrard asked: "Did the USGS have access to all of the available 3-D seismic or recently drilled wells? Did they have sufficient time to interpret these data? What new technical studies have they conducted? Did they consult with all of the various operators who have been active in NPR-A?"

If the latest USGS numbers are correct, then the assessment should represent a major concern for Alaska, Garrard said. "Alternatively, if the USGS was under pressure to issue a new number without having access to all of the data or time to conduct a thorough analysis, then the possible political ramifications could be concerning," he added.

Winners and losers

Environmental groups want permanent protection for coastal areas of the energy reserve, and the sharply lower oil projections could make it easier for the Obama administration to justify permanent closure of currently deferred areas to oil exploration.

However, the lower oil projection for NPR-A could strengthen the case for exploration in the Chukchi Sea, considered the most promising unexplored offshore oil and gas basin in North America.

Even if the projections for oil ultimately prove accurate, the potential gas resources in the energy reserve are immense and

developing them could greatly improve the long-term economic viability of the proposed gas pipeline from Prudhoe Bay to Lower 48 markets.

Garrard believes the reserve's potential for oil is still quite good, but getting it out of the ground economically will be challenging due to the lack of infrastructure in the remote frontier area. As for the gas resource, until a pipeline is built from the North Slope southward, a major discovery in NPR-A isn't much better than a dry hole, a USGS scientist noted.

With regard to the new planning process launched earlier this fall by the BLM, RDC urged in its scoping comments that all of NPR-A should be open to oil and gas leasing, as well as mineral entry. Moreover, RDC said the BLM should establish transportation corridors within NPR-A to facilitate future oil and gas development in the OCS and resource development in South NPR-A.

"With climate change and polar bear critical habitat issues to be introduced into the new planning process, it is highly likely that anti-development forces will use these and other issues to demand the removal of additional acreage from exploration," RDC warned. "Those who oppose new oil development in the Arctic are likely to demand permanent Wilderness protection of much, if not all, of the petroleum reserve's coastal plain, thus blocking future oil and gas exploration and development inside an area specifically intended for oil development."

RDC's comments on the new plan, known as the Integrated Activity Plan, is available at: www.akrdc.org/alerts/2010/nraplanningcomments.html.

State reaffirms opposition to more wilderness areas in ANWR

Governor Sean Parnell reaffirmed his opposition to any plan or wilderness review process that further encumbers the potential for oil and gas development on the coastal plain of the Arctic National Wildlife Refuge (ANWR).

“It is incredible that the U.S. Fish and Wildlife Service wants to increase Wilderness designation and lock up 11 billion barrels of oil,” Parnell said. “Through a detailed letter from Attorney General Dan Sullivan, and through other correspondence, my administration has repeatedly questioned the legality of this maneuver by the federal government, and yet we have not even received a response concerning the legally suspect course that Fish and Wildlife is choosing to follow.”

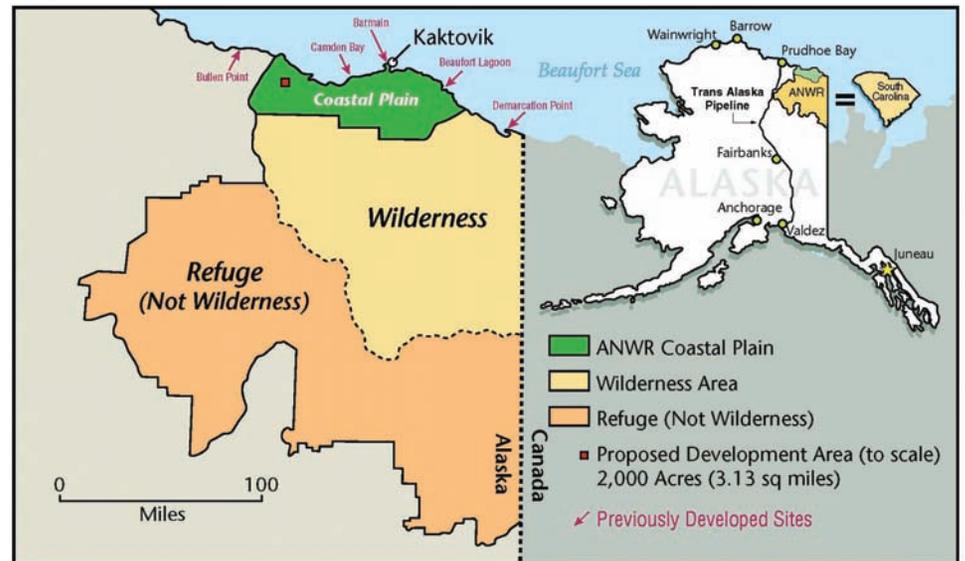
Oil and gas development in the 1002 area of the coastal plain would provide a secure onshore domestic supply of energy for the nation, create tens of thousands of jobs throughout the country, and ensure the continued operation of the Trans-Alaska Pipeline System for years to come.

The governor noted that oil from ANWR could help meet U.S. demand for 25 years or more and that development is compatible with the protection of wildlife and their habitat.

“We think we have strong legal options to prevent these unwarranted federal actions,” Parnell said.

Parnell’s comments come in response to the Service’s announcement that the agency will conduct wilderness reviews for three Wilderness Study Areas (WSAs) for potential inclusion within the National Wilderness Preservation System. These three WSAs encompass almost all refuge lands not currently designated as Wilderness.

If the wilderness reviews lead to a recommendation to give wilderness status to any of the WSAs, the recommendation would require approval by the Director of the Fish and Wildlife Service, the Secretary of the Interior, and the President. If a



Source: Alaska Department of Natural Resources

recommendation receives support of all of these parties, the President would submit it to Congress, which alone has the authority to make final decisions on any proposed wilderness designations.

The wilderness reviews are expected to be completed by February 2011. The Service plans to release a draft revised plan for ANWR, which will include the wilderness reviews, for public review and comment in March 2011. The Service plans to issue the final plan and record of decision, incorporating any recommendations arising from the wilderness reviews, in May 2012.

The Service said its decision to review nearly all non-wilderness lands in ANWR for potential inclusion into the wilderness system, including the coastal plain, is in response to comments received nationwide during the recent comment period.

Currently, 42 percent of ANWR, including 500,000 acres of its eastern coastal plain, is already designated Wilderness. Overall, 92 percent of the refuge is closed to development. However, 1.5 million acres of the refuge’s western coastal plain, the 1002 area, was excluded from the Wilderness

designation in a compromise struck under the 1980 Alaska National Interest Lands Conservation Act.

In exchange, Congress doubled the size of the refuge and designated eight million acres outside the 1002 area as Wilderness. In recognizing the coastal plain’s enormous oil and gas potential, Congress mandated a study of the 1002 area’s geology and petroleum resources, as well as its wildlife and environmental values. In 1987, the Department of the Interior concluded that oil and gas development would have minimal impact on wildlife and recommended the coastal plain be opened to development.

Congress in 1995 voted to open the 1002 area to exploration, but President Bill Clinton vetoed the measure.

A federal Wilderness designation over the 1002 area, which accounts for only eight percent of the refuge, would forever place off-limits what is likely North America’s most promising onshore oil and gas prospect.

RDC and Arctic Power vigorously oppose new wilderness designations inside ANWR and have testified in Washington, D.C., and Anchorage on the issue.

Habitat enhancement at a cost of \$200,000 per deer

Forest Service urged to restore 2008 timber schedule

The Alaska Forest Association is urging the U.S. Forest Service to restore the 2008 timber sale schedule for the Tongass National Forest, pointing out that a newly revised schedule would utilize only a quarter of the timberlands that were to be set aside for logging in the forest's land management plan.

The 2008 Tongass Land Management Plan (TLMP) promised to deliver up to 267 million board feet (mmbf) annually, but a 2008 five-year timber sale schedule along with four promised ten-year timber sales provided only about 190 mmbf of timber annually. The latest five-year schedule cuts the volume in half to 92 mmbf.

"The primary cause of the reduced volume in the new schedule appears to be the avoidance of timber sales in roadless areas," said Owen Graham, Executive Director of the Alaska Forest Association. "Fully half of the timberlands scheduled for harvest in the 2008 TLMP are in roadless areas. Another quarter of the TLMP scheduled timberlands hold immediate timber – timber that is growing well, but will not be physically or economically mature for decades."

Graham pointed out that "the actual volume of timber that might ultimately become available from this plan may be too low to support even the single, medium-size sawmill that is currently in operation on the forest."

Graham urged the Forest Service to complete the ten-year timber sales as promised, making available 150-200 mmbf annually, not 30-80 mmbf as the agency is now planning. He also urged it to prepare

and implement timber sales to sustain the forest products industry and allow it to expand to the level permitted by the 2008 TLMP.

Graham also recommended the agency work with the state and industry on "full implementation of TLMP – including utilizing all the lands that were designated as 'suitable and available' and making project level changes in Standards and Guidelines where necessary in order to facilitate the preparation of economic timber sales."

The association noted Forest Service implementation of the 2008 TLMP is proceeding slowly with only ten percent of the scheduled timber sale volume made available to industry. "This is primarily a result of economic deficiencies in the Forest Plan," Graham said, adding that "two-thirds of this latest schedule is comprised of timber sale projects that appraise deficit."

Regarding the schedule for young growth thinning, Graham noted the cost to harvest 5,000 acres under proposed stewardship contracts for wildlife habitat enhancement in 2013 will be in excess of \$25 million, but the value of the immature young-growth timber to local sawmills will be less than \$8 million. He said the projected \$17 million loss to taxpayers is unnecessary. "I recognize that some may assert an enhanced deer habitat benefit but that habitat enhancement would come at a cost of \$200,000 per deer or \$4,000 a pound for the meat. Continuing the normal timber sale program will provide similar benefits for wildlife without the huge financial impact."

Shell to seek Beaufort Sea drilling permit

Shell has submitted an application for a permit to drill one exploration well in the Beaufort Sea in 2011. The formal submission to the Bureau of Ocean Energy Management Regulation and Enforcement (BOEM) is specifically for the shallow waters of Camden Bay and continues the regulatory process toward a summer drilling season.

In 2009, the BOEM approved Shell's Offshore Alaska Plan of Exploration, which was challenged but then upheld by the 9th Circuit Court of Appeals in May of this year. Prior to approval, the BOEM completed a comprehensive Environmental Assessment and issued a Finding of No Significant Impact, in which the agency concluded that Shell's proposed drilling program would have no significant impact on the marine environment or resources of the Camden Bay area. The agency also determined Shell's program would not negatively impact subsistence use of those resources.

"We have every reason to believe the Administration will permit 2011 exploration

drilling in Alaska," said Pete Slaiby, Shell Alaska Vice President. "The President, himself, endorsed our Alaska exploration program last spring. Unfortunately, the Deepwater Horizon tragedy occurred and led to a suspension of offshore activities in Alaska. Since then, Shell has taken extraordinary steps to build confidence around our 2011 program, which involves a limited number of exploration wells in shallow water with unprecedented, on-site oil spill response capability. The Administration should approve Shell's permits, put people to work, and move to validate what we believe is a valuable national resource base."

Shell also notified the BOEM of its plan to gather drilling mud, cuttings, and various drilling fluids at its Camden Bay wells in 2011, which will further reduce Shell's offshore footprint.

For its proposed offshore operations, Shell has designed and equipped the most robust oil spill response system in the Arctic known to the industry, and, in accordance with the

BOEM's recent inquiries, Shell has further confirmed that the worst-case discharge volume for its proposed Camden Bay well is lower than previously calculated volumes. While Shell planned its oil spill response system for larger discharge volumes, the new calculation will not decrease the response system's capabilities.

Shell has also confirmed its commitment to engineer an oil spill containment system, which is designed to capture hydrocarbons at the source in the unlikely event of a shallow water blowout. The containment system will remain staged in Alaska and allow for rapid, on-site recovery for shallow offshore wells in extremely cold water.

"It's our hope required approvals will come in time for us to begin planning a 2011 drilling season," said Slaiby. "We are now five years into some of our ten-year lease agreements. Further delays will only serve to jeopardize jobs and the future development of U.S. oil and gas reserves critical to our nation's energy security."

State urges feds to lift drilling ban

Governor Sean Parnell and Senator Mark Begich expressed their disappointment last month to the Obama administration when Interior Secretary Ken Salazar lifted the suspension on deepwater exploration in the Gulf of Mexico, but said the decision would not apply to offshore drilling in Alaska.

“If Secretary Salazar can lift the moratorium for wells in 5,000 feet of water, he should be able to do so for a shallow water well in the Beaufort Sea,” Parnell said. “While this is a step in the right direction, the 2011 drilling season in Alaska remains at stake. The industry needs regulatory certainty and predictability. Without certainty, it is very difficult for the industry to plan or invest, to the detriment of Alaska and the nation.”

“Giving the green light to continued oil and gas development in the Gulf of Mexico is a positive sign for America’s energy industry and for American energy consumers,” said Begich. “This country imports far too much of our oil and gas from abroad while we have the technology to safely develop these resources at home and put thousands of Americans to work. Still, I’m frustrated the Secretary’s announcement didn’t mention Alaska, where clear guidelines about offshore development in our Arctic waters remain unsettled. Because of our short drilling season and the complexity of getting equipment in place, Alaska operators need certainty about what development they can do when.”

Begich sent a letter to President Obama requesting that reasonable timelines for responsibly developing the plentiful oil and gas resources in the Outer Continental Shelf (OCS) off Alaska’s Arctic coasts be provided within 60 days. He said Shell’s recent announcement to scale back its Alaska 2011 exploration plans underscores the need for the federal government to provide clear directions to energy companies operating in Alaska.

The Department of the Interior (DOI) has not set any deadline on deciding whether to allow future offshore drilling in the Arctic. Shell’s plans to apply for a Beaufort Sea drilling permit for 2011 assumes that DOI will lift its Arctic ban by the end of the year.

Parnell also noted the decision to



Shell awaits a green light from the federal government before it can move forward in the Alaska OCS.

end the Gulf moratorium offers no clear guidelines that pertain to Alaska. “The Arctic moratorium violates federal law and our lawsuit against Secretary Salazar will proceed,” the Governor said.

The State of Alaska in September filed a lawsuit against Salazar in U.S. District Court in Alaska to overturn the federal moratorium on offshore drilling in Alaska’s OCS. The suit seeks to block the moratorium on the grounds that the Obama administration violated federal law and acted in an arbitrary and capricious manner.

“It is a cruel irony for Alaska to have been improperly bootstrapped into a moratorium that stemmed from deepwater activities in the Gulf, and then have the Gulf moratorium lifted without similar relief for Alaska’s Arctic exploration activities, which occur in much shallower waters,” said Alaska Attorney General Dan Sullivan.

The state’s filings lay out the facts of the Arctic moratorium and the numerous instances in which Salazar has stated, including in testimony before Congress, that the agency has instituted a “moratorium” or “pause” on Arctic OCS exploration activities. Under the OCS Lands Act, the governors of affected states must be given notice of and an

opportunity to participate in such an agency action. The state is seeking expedited review of its lawsuit so that planned 2011 drilling projects can advance. The court has granted the state’s request for an expedited review.

In comments submitted at a September hearing in Anchorage hosted by BOEM Director Michael Bromwich, Parnell noted the operating conditions in the relatively shallow waters of Alaska’s OCS are categorically different from those encountered in the extreme deep waters of the Gulf of Mexico.

“Drilling in an Arctic climate holds unique challenges but offers distinct advantages compared to what is needed for deepwater offshore oil and gas exploration and development,” according to Parnell. “There are also differences between state and federal oversight and regulatory frameworks, as well as fundamental contrasts in the geology of the regions, all of which merit consideration while making policy decisions.”

The governor also said concerns regarding blowout prevention are very important. “Alaska has a long and proud record of safe oil and gas drilling,” Parnell said. “In large part, this is because of a regulatory framework based on an extensive and specialized knowledge of the Alaska drilling environment and the proactive assistance provided by regulators to explorers and developers to manage risk.”

Larry Hartig, Commissioner of the Department of Environmental Conservation, testified at the Anchorage meeting.

“Alaska’s OCS is an important part of our nation’s energy future,” Commissioner Hartig said. “Alaska is committed to responsible development of the oil and gas potential of our state. As tragic as the events in the Gulf are, the BOEM must assess the risks and opportunities in Alaska based on conditions and resources present here. We believe this assessment should lead to the conclusion the processes and safeguards are in place to allow leasing and exploration activity to resume on the Alaska OCS.”

RDC attended the hearing and submitted comments supporting the state’s position.

Parnell urges EPA to not invoke Section 404(c) rule

Governor Sean Parnell has sent Environmental Protection Agency (EPA) Administrator Lisa Jackson a letter requesting she decline to invoke Section 404(c) of the Clean Water Act, an action several tribes have asked her to take to prohibit or restrict discharges of dredged or fill materials, including mine tailings, within watersheds that would include the Pebble prospect in Southwest Alaska.

“Governor Parnell should be applauded for his letter as the impact of such action by EPA could be devastating to future development in the entire Bristol Bay region,” said RDC Executive Director Jason Brune. “If successful, this tactic could begin to be employed statewide by opponents of projects who don’t support the opportunity to go through a fair public process.”

Parnell assured Jackson he supports protecting the Bristol Bay watershed, and that he would do everything in his power to see that any development fully protects the resource values of the area.

“While I understand and share the petitioners’ desire to protect the resources in Bristol Bay, I disagree that invoking the 404(c) process at this time would contribute to that goal,” Parnell said. “At best, it would waste agency and public time and resources. At worst, it would work against our mutual aims.”

The governor said a premature 404(c) determination effectively prohibiting mining in the area would impinge on state land use planning authority. He explained that much of the land in the region belongs to the state. “We have completed several iterations of land planning for these lands, including exhaustive public outreach and deliberations to find a balance between competing interests and potential land uses. While we recognize that initiating the 404(c) process does not necessarily lead to a particular outcome, even the possibility that the process would conclude with a prohibition against mining over vast expanses of state lands causes great concern.”

Parnell said federal preemption of traditional state land use authority is an alarming prospect and would undo years of planning efforts, and the effects would not stop there. He explained there has been tremendous investment in the area based on the potential for mineral development. “We cannot fathom the liability and legal challenges that could accompany an unprecedented, after-the-fact determination by the federal government that mineral development from these state lands is no longer viable.”

The governor pointed out that Section 404(c) offers no protections beyond those included in the Section 404(b)(1) permitting process. The regulations that implement the two parts of the Clean Water Act include virtually the same prohibitions and call for virtually the same analyses and findings. “The difference is that you’re being asked to invoke Section 404(c) now ahead of any environmental planning and permitting processes, whereas the Section 404(b)(1) process would come later as part of the permit process for Pebble or another mine,” Parnell wrote Jackson.

“The record is currently insufficient to support the findings demanded by the 404(c) process, and could not begin to approach the record that will exist upon completion of the NEPA and permit



Several tribes have asked the EPA to invoke the Section 404(c) rule of the Clean Water Act in an effort to block mining in Southwest Alaska. Above is exploration activity at the Pebble prospect.

processes that would be required for a new mine development,” Parnell said. “The environmental planning and permitting process for the Pebble Mine alone will necessarily produce volumes of studies and information that would allow for fully informed decisions about potential impacts from mining in the area.”

Parnell also noted not enough is known about mine plans in the area to gauge impacts as required by the 404(c) process. State and federal agencies have yet to receive designs or permit applications for the Pebble project, or any other major mine in the Bristol Bay area. “Without a specific proposal, EPA cannot evaluate the potential impacts or risks from the project,” Parnell said. “We do not know where facilities would be located, which wetlands might be impacted, or what the characteristics of the dredged or fill materials would be.”

Invoking the 404(c) process would also short change public participation, Parnell warned. He said the public notice and opportunity for comment under the 404(c) process could not rival the outreach, education, consultation, and other public involvement that would occur should the Pebble Mine or another mine advance to the NEPA and permitting phase.

Parnell warned that a premature 404(c) determination would effectively prohibit mining in the area and would disproportionately impact rural residents and Alaska Natives. He explained that approximately 70 percent of area residents are Alaska Native and 17 percent fall below the poverty line. The area has seen an 18 percent population decline in the last ten years. “Knowing of your keen interest in the effects of EPA decisions on disadvantaged populations, we hope you would take into account that a 404(c) decision to preclude mining in this economically-depressed region would abruptly and conclusively deny area residents any opportunity to avail themselves of the benefits they might seek from responsible mining,” the governor said.

Parnell concluded his correspondence to Jackson by noting the intended purpose and true utility of the 404(c) process is in addressing actual or imminent adverse effects where the NEPA and permit processes failed or where there is reason to believe that they will fail. He said there is no purpose or advantage to initiating the process now.

“I firmly believe initiating a 404(c) process would be ill-advised and potentially contrary to our shared goal of protecting area resources,” Parnell said.

THANK YOU SKAGWAY

The Resource Development Council for Alaska would like to thank the community of Skagway for making our annual board community outreach trip a huge success.



We would also like to thank our sponsors - Alaska Airlines, Anglo American US LLC, Coeur Alaska – Kensington Mine, ConocoPhillips Alaska, Inc., ExxonMobil, Flint Hills Resources, Skagway Street Car, TEMSCO Helicopters & North Star Terminal, Usibelli Coal Mine, Inc., White Pass & Yukon Route Railroad.

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Growing Alaska Through Responsible Resource Development



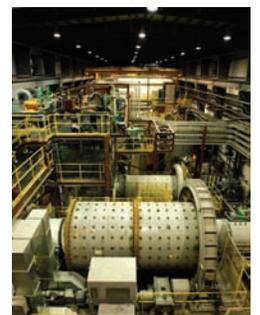
RDC Executive Director Jason Brune, President Tom Maloney and Deputy Director Carl Portman enjoy the view from a TEMSCO Helicopters glacier tour.



RDC board members participate in a guided TEMSCO Helicopters glacier tour near Skagway.



Geologist Paul Glavinovich and Coeur Alaska's Jan Trigg at the new Kensington Gold Mine. At right is the mill.



RDC Board Member Steve Hites welcomed the group to Skagway.



The RDC Board community outreach trip in September included a scenic excursion on the White Pass & Yukon Route Railroad, the Slate Lake tailings facility at the Kensington Gold Mine, and the Mt. Roberts Tramway in Juneau.





The need to drill to pay the bill

Alaska has been a great domestic oil source, including 33 years from Prudhoe Bay made possible by the Trans-Alaska Pipeline System (TAPS).

How are current production levels? What will the next decade bring? Will TAPS have enough oil to continue running? Will our kids and grandkids have a future in Alaska? Will state and federal governments take positive action in time? These are just a few questions that our leaders need to address. The clock is ticking.

What can we do to get our economy moving again? For starters, we all need to acknowledge the decline problem.

Cook Inlet oil production peaked at 230,000 barrels per day (bpd) in 1970. Production levels are now around 12,000 bpd, down about 95%. The Prudhoe Bay and Kuparuk oil fields, the two largest in North American history, were leased, drilled, and developed by private investment on state lands. North Slope production peaked at 2.1 million bpd in 1988. We are now under 650,000 bpd, a reduction of 70%.

Wayne Gretzky, *The Great One*, said, “you miss 100% of the shots that you don’t take.” The same is true with hydrocarbons. Without drilling, you get no new production. Without new production, the only question will be when the oil runs out.

Industry recognizes things are drying up, but too many Alaskans don’t know there has been a 70% decline in TAPS over 20 years because high oil prices have masked the production decline.

What can we do?

With drilling activity sharply down over the past several years, tax policy must change. An investor takes 100% of the risk to lease, explore, and develop a resource. At high prices, the government can take over 90% of the profits. What is the incentive for an investor to take risk? Would anyone with their own real estate, stock or other investments give the government all of the upside while taking nearly all the downside risk?

We need to encourage industry and government dialogue to reverse the steep decline in drilling and overall production.

Drilling credits are a fast way to stimulate investment, which would benefit multiple employment sectors. Governor Parnell proposed drilling credit legislation last year. Legislators did not vote on his 2010 proposal. However, recently he announced at an RDC luncheon a two-part plan to make oil exploration more competitive, including capping progressivity at higher oil prices and offered tax credits for technically-challenged fields.

Tax credits combined with research are needed to increase heavy oil investment. Heavy oil is abundant on the North Slope with over 20 billion barrels of reserves. Recovery rates are currently low and production costs are high.

Regarding the proposed gas pipeline, opportunities around a positive Open Season would accelerate gas and oil developments. In other words, “drill baby, drill.” We need positive change and action in 2011, or we may not have a long-term future as an oil and gas state. We need to encourage production.

Federal Oil

TAPS is running two-thirds empty not because we have already developed most of the oil in the Arctic, but rather the lack of development in highly prospective federal areas, both onshore and offshore. Over the past 30-plus years, over 16 billion barrels of oil have been produced on state lands along the central North Slope and virtually all of it has gone to Lower 48 markets. However, the sustainability of TAPS going forward will require some combination of federal oil.

Federal prospects in the Arctic National Wildlife Refuge (ANWR), the National Petroleum Reserve-Alaska (NPR-A) and offshore in the Chukchi and Beaufort Seas may contain up to 40 billion barrels of oil and over 250 trillion cubic feet of natural gas (over seven times the gas resources of Prudhoe Bay and Point Thomson combined). Development of these enormous oil and gas resources would sustain Alaska’s economy for generations. At current prices, the oil alone would be worth over \$3.2 trillion, stimulating federal and state coffers, and creating hundreds of thousands of jobs across the nation.

Obviously, the reserves beneath federal areas in the Arctic have the potential to easily eclipse what has been developed on state lands. Now is the time for the federal government to step up to the plate and open these frontier areas to development. After all, what other country has turned away from developing its most promising onshore oil prospect (in our case, ANWR)? What other country refuses to move forward with exploring its most promising unexplored offshore basin (the Chukchi Sea)? And what other country has deferred from development its most prospective lands in a petroleum reserve set aside for development? Instead, America has chosen to elevate its reliance on foreign imports to over 60 percent of the oil it consumes.

In the case of NPR-A, industry has invested billions to lease, explore, and drill over the past decade. How many barrels of oil have been produced? Zero. Billions of dollars out the door, and nothing in – partly due to multi-year delays in permitting and other regulatory issues. These delays cost Alaskans dearly in high paying jobs like drilling, engineering, fabrication, and installation.

With regard to ANWR, the federal government is considering expanding the refuge’s wilderness designations to specifically include the energy-rich “1002 area” of the coastal plain. Such an action would block future development of ANWR’s 10 billion barrels of oil. Yet polls reveal 78% of Alaskans favor responsible energy development in ANWR. However, the majority of Americans believe Alaskans oppose opening ANWR. Let’s clear this up, once and for all and put it on a ballot.

Alaska and the federal government have the opportunity to stem the rapid decline in production. We should continue to work with all interested parties to ensure that we have a bright future by growing Alaska through responsible resource development.

Industry digest

Beluga whale count increases in Cook Inlet

A survey conducted by the National Marine Fisheries Service found the Cook Inlet beluga whale population has increased this year over a 2009 count. Scientists with the federal agency estimate the population is now 340, compared to 321 last year. The results are based on aerial surveys conducted in June during fish migrations, when belugas concentrate at the mouths of rivers.

"This continues an upward trend from the all-time low of 278 in 2005," said Jason Brune, RDC Executive Director.

The belugas in Cook Inlet were listed as an endangered species in 2008, an action that has raised much concern about potential impacts on activities ranging from oil and gas development and commerce to community wastewater treatment.

The State of Alaska, which is challenging the listing in court, estimates there is less than a one percent probability of extinction for the whales in the next 50 years.

State, RDC ask for de-listing of sea lions

The State of Alaska has petitioned the federal government to remove the Eastern distinct population segment (DPS) of the Steller sea lions from the Endangered Species Act (ESA). The state coordinated its filing with Oregon and Washington.

The National Marine Fisheries Service (NMFS) has divided the sea lions into two distinct population segments – a Western DPS and an Eastern DPS. The western is listed as endangered and the eastern is currently listed as threatened. The Eastern has surpassed the recovery objectives set by NMFS and the threats facing the sea lions have been addressed, meriting their removal from the ESA.

"We're working on multiple fronts to ensure that commercial fishing and other important economic activities are not blocked by unwarranted ESA regulations," Governor Sean Parnell said. "Removing a recovered species from the list reduces needless bureaucracy and litigation risks."

The state also submitted comments on NMFS' recent draft biological opinion and associated environmental assessment on the impact of the federal groundfish fisheries on the health of the Western DPS. Despite significant scientific uncertainty and an increasing population trend, the draft opinion concludes that commercial fisheries are inhibiting the recovery of two of the seven sub-populations of the Western DPS and calls for substantial curtailment of commercial fisheries in the Western Aleutian Islands.

"The agency's conclusion that additional fishing restrictions are necessary is not supported by the best available science," said Attorney General Dan Sullivan.

Marleanna Hall, RDC's Projects Coordinator, supported the petition for de-listing the Eastern DPS. See comments at akrdc.org.

RDC supports Jonesville coal permit

RDC recently submitted comments to the state in support of the Jonesville Coal Mining Permit Renewal covering a five-year term.

The application for the renewal of the permit, submitted by Ranger Alaska LLC, does not include any changes or modifications to the previously approved permit. The original permit met all requirements of the Alaska Surface Coal Mining Control and Reclamation Act, a highly comprehensive permitting program which, when combined with other current state and federal regulations, sufficiently protects the environment and water resources in the area.

Princess to add new ship to Alaska in 2012

Princess Cruises will add an additional ship for the 2012 season, potentially bringing 45,000 new visitors and more than \$40 million in direct and indirect spending in Alaska.

"I am extremely pleased that Princess has demonstrated confidence in Alaska's business climate by adding another ship in 2012," said Governor Sean Parnell. The governor signed legislation that reduces the cruise passenger head tax, after meeting with small business owners and visitor industry leaders and learning of the detrimental effects from the excise tax. Reversing the decline in visitor travel has been a focus of Parnell and a new organization, the Alaska Alliance for Cruise Travel (AlaskaACT), which is administered by RDC.

"Alaska changed from a destination fighting to keep the cruise business we had, to a destination that is now competing to regain the business," said Bob Berto, President of AlaskaACT and a member of the RDC Executive Committee. "While we still face many challenges, I am optimistic Alaska can set a new course to stop the decline in the visitor industry and position ourselves for future growth."

Recently, AlaskaACT was recognized for its efforts to support the visitor industry by receiving the Alaska Travel Industry Association's 2010 Alyeska Award in conjunction with Alaska Cruise Association.

The additional 45,000 visitors expected to sail on the Princess ship will bring Alaska cruise visitation estimates in 2012 to 955,000 visitors. Visitation peaked in 2008 at more than 1,030,000 passengers.

RDC supports permit renewal for PacRim

The state should authorize a two-year extension to the exploration permit held by PacRim Coal, LP for its Chuitna coal project, RDC said in written comments last month to the Division of Mining, Land and Water.

PacRim Coal has applied for a two-year renewal to the existing permit for exploration in the Chuitna coal area 11 miles northwest of Tyonek. The permit, originally issued in 1983, has been renewed numerous times. A renewal would provide for continued monitoring of 82 previously drilled wells, and six new ones to be drilled.

"As PacRim Coal prepares to enter the mine permitting process, it is crucial that they be allowed to retain monitoring abilities at the Chuitna site, as well as conduct additional monitoring, should the need arise," said Deantha Crockett, RDC Projects Coordinator.

Railroad applies herbicide to control weeds

In late July, the Alaska Railroad (ARRC) applied a glyphosate herbicide along 30 miles of track between Seward and Indian and within the Seward yard. This followed a year-long Alaska Department of Environmental Conservation (ADEC) permit process, and months of litigation. It was ARRC's first application of a herbicide in 28 years.

In 2009, ARRC requested an ADEC permit to use AquaMaster, a herbicide EPA approved for use in and around water. After a year-long review, ADEC approved the permit. Environmental groups litigated to block use of AquaMaster, but the Alaska Supreme Court declined to overturn ADEC's decision. RDC supported the ARRC's permit request.

The railroad hired a licensed and experienced contractor to apply the herbicide in select areas where waterbodies were further than 100 feet away, as required by the permit. The herbicide did an excellent job of getting rid of the weeds between the rails and the ties. Monitoring has shown the herbicide did not harm vegetation outside the spray zone, nor did it migrate or linger in the soil.



RESOURCE DEVELOPMENT COUNCIL

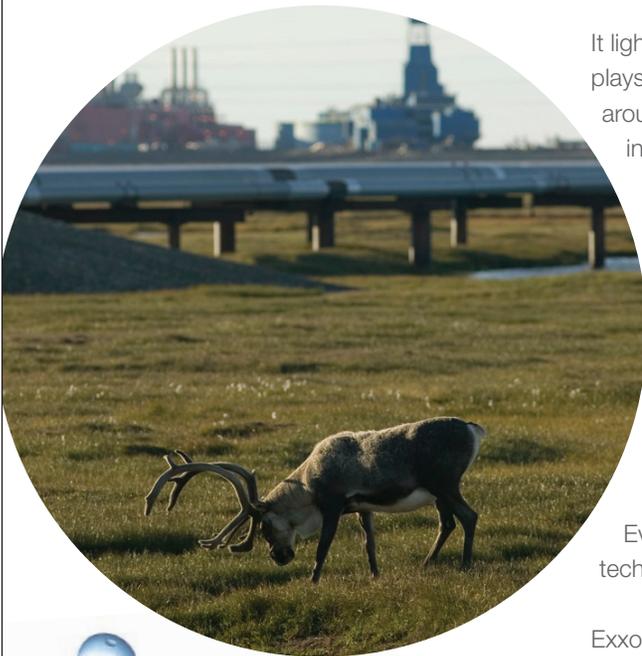
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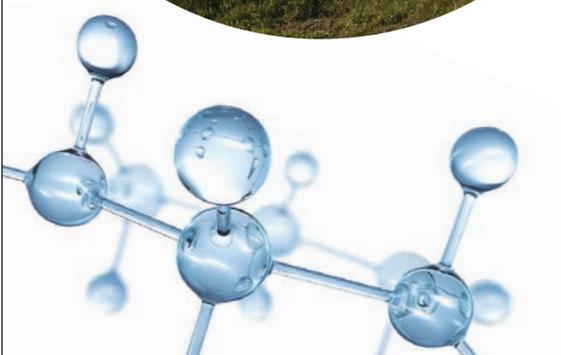
It lights our homes. Fuels our transportation. Powers our industries. Energy plays a crucial role in driving our economy and raising living standards around the state of Alaska. But as demand has grown, energy use has increased, and so have greenhouse gas emissions.

So there's a dual challenge: provide the energy we need to prosper and reduce poverty, but do it in ways that lessen our environmental impact. To supply more energy, we'll need increased investments, new technologies and access to energy resources. To reduce emissions, we'll need to develop innovative ways to use energy more efficiently and take a global approach to managing the risks of climate change. Everyone has a role to play—industry, governments, individuals.

Every practical option must be explored, and thoughtful solutions and technologies have to be found.

ExxonMobil is confident we can address this challenge so that Alaska and the world can achieve both energy and environmental security.

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