

Alaska Economic Report

*Tracking resource, business, industry
& construction issues since 1974*

Publishers: Mike & Tim Bradner (907) 440-6068
3037 South Circle, Anchorage, Ak. - 99507

February 28, 2020
No. 3/2020

Permanent Fund takes hit, but it could have been worse *\$2.8 billion drop, but other investment funds fared worse*

Alaska's Permanent Fund took a \$2.8 billion hit, or 2.4 percent, in last week's financial markets dump, but things could have been worse. An index of passive funds (those not actively managed) fared much worse, dropping 5.5 percent, the Fund said in a March 3 analysis. There was some bounceback on Monday, another dip Tuesday and another uptick Wednesday with the Fund up \$496.1 million.

What helped Alaska's fund was its asset diversification with a mix of public and private assets, the latter which are less vulnerable to sudden market swings. Markets had reacted strongly to escalating COVID-19 fears and indications that efforts to halt its spread were ineffective. One interesting part of the Fund's holdings is a group of investments in its Venture Capital portfo-

lio that consists of innovative biotech companies that are positioned to assist in responding to public health crises, the Permanent Fund said. Another stabilizing part of the Fund is an "Absolute Return" portfolio "that performs with no material correlation to the broader markets. Early data on manager performance showed that this portfolio showed its intended role last week," the Fund said in its statement. The Fund showed a total value of \$65.1 billion as of Friday, Feb. 28, compared with \$67.9 billion seven days earlier.

In this Issue:

- Mat-Su LNG plant Pg. 2
- Worry about cruise tourism Pg. 4
- Furie's Cook Inlet assets Pg. 6

Winter exploration on North Slope already yields new finds

The 2020 winter exploration season on the North Slope is already yielding results. In a briefing to analysts Oil Search reported good results from its Mitquq 1 exploration well, finding 180 feet of oil-bearing sands and 17 feet of gas-bearing sands in the Nanushuk formation and additional oil and gas sands in the deeper Alpine oil and gas-bearing sands. The discovery is separate from the nearby Pikka project now being developed by Oil Search and its partner, Repsol, but it's likely that development of

Mitquq 1 could be tied in to existing nearby facilities. Oil Search also reported encountering the Nanushuk formation at its Stirrup 1 well test well further south. Stirrup is close to the "Horseshoe" discovery made by Armstrong Oil and Gas and now in the Oil Search/Repsol portfolio. Stirrup is encouraging enough that a production test may be done this winter, Oil Search told analysts. The find could enhance Horseshoe resources sufficiently to support stand-alone production facilities in the area.

Infrastructure:

Private vessels for ferry service

The state Dept. of Transportation and Public Facilities has contracted with Sitka-based Allen Marine to provide passenger ferry service to Tenakee, Angoon, and Kake until state ferry vessels can return from maintenance and upgrades. Allen Marine was contracted earlier for trip from Juneau to Skagway and Haines. Allen Marine's vessels can carry passengers and some freight but not vehicles. The company mainly offers summer tourist sightseeing services with its vessels.

Alaska air safety under scrutiny

The National Transportation Safety Board has asked the Federal Aviation Administration to review Alaska's aviation safety rules in light of high rates of accidents and fatalities, mainly for smaller aircraft. The fatality rate in Alaska air accidents is 1.34 times higher than the national average, the NTSB said. The review would focus on "controlled flight into terrain" incidents, which is jargon for unintentionally flying into mountains or the ground surfaces. Usually these are weather-related. NTSB said the lack of infrastructure in Alaska that is common in the Lower 48 should be included in the review.

Construction:

Mat-Su LNG plant construction

Design and engineering is about 65 percent complete on a \$50 million to \$60 million project to build a new liquefied natural plant in the Matanuska-Susitna Borough. This would replace a small LNG plant now operating near Port MacKenzie in the borough, according to officials with the Interior Gas Utility, or IGU, which owns and operates the plant. The larger plant is needed to supply more LNG to Fairbanks, where the gas utility has built new gas distribution lines and recently finished a large LNG storage tank.

– Continued top right

Mat-Su LNG plant (Cont.)

The cold winter has been good for the utility, with gas sales ahead of projections. A second storage tank in North Pole will be in construction this summer in that community east of Fairbanks. Distribution lines are already installed. IGU is sending five LNG trucks daily and occasionally a sixth from Mat-Su to Fairbanks on the Parks Highway.

Work underway at Anchorage port

Construction of a new petroleum and cement terminal will begin this spring at the Municipality of Anchorage's Port of Alaska. The project, estimated at \$200 million, will be finished in late 2021. The port will receive a \$20 million federal grant for the work, which will reduce the project deficit of costs over funds on hand to about \$35 million. That will be paid for by revenue bonds that will be repaid by tariffs on fuel and cement landed at the terminal. Port officials are meanwhile working on a second phase of port redevelopment with a plan to replace the aging general cargo docks.

New rural school; housing

The state will fund \$34.4 million for a new school in Eek, in southwest Alaska, with the regional Lower Kuskokwim School District contributing additional funds. Also: Native villages and tribes in Alaska will receive \$95 million in federal grants for housing improvement. The money will be distributed among 237 villages and tribes.

Health care: Medicaid is funded: The state House approved a \$299 million supplemental budget for the current fiscal year that includes \$144 million to keep the state Medicaid program running. This was short-funded last year and without the supplemental payments to health providers serving patients on Medicaid would have stopped.

Cooling on ANWR?

Goldman Sachs; J.P. Morgan and now Wells Fargo

Wells Fargo and J.P. Morgan Chase became the latest major U.S financial institutions to back away from financing large energy projects in the Arctic including exploration and development in the Arctic National Wildlife Refuge. Earlier, Goldman Sachs made a similar announcement, as did Black Rock, the large equity investment firm. Gov. Mike Dunleavy has vowed to retaliate against finance groups opposing ANWR. J.P. Morgan has about \$950 million in Alaska Permanent Fund money under investment. Dunleavy hasn't said anything so far about J.P. Morgan or Wells Fargo but he did say he would seek to cut any ties with Goldman Sachs.

The Alaska Permanent Fund Corp., however, is signaling the governor that it wants to steer clear of politics in its management of the state's \$60 billion-plus Fund. In a Feb. 28 statement the Fund said it will stick with J.P. Morgan. Here's what was said: "As the investment manager of the Fund, the Alaska Permanent Fund Corporation relies on external investment managers and financial service providers, like J.P. Morgan, to access global markets to both enhance and diversify the Fund's returns.

"Because our mandate is to prudently invest Fund assets to generate returns that will benefit all generations of Alaskans, APFC will continue to partner with firms, like J.P. Morgan, to achieve that mission." As a sop to the governor, however, the Fund will seek a "dialogue" with its investment partners. "We encourage our partners to take the time to understand Alaska, its complexity, and its economy," which is oil-dependent.

In a recent briefing to Commonwealth North, an Alaska business group, Permanent Fund chair Craig Richards acknowledged that the environmental and sustainability movement in the world financial community is a growing presence that can't be ignored. Meanwhile, it's hard to see how the governor can retaliate against Wells Fargo, which is the state's biggest bank.

New teacher, public safety personnel housing in rural Alaska

The Alaska Housing Finance Corp. will make \$2.17 million in grants to build or rehabilitate 28 rental units in five rural communities to house teachers, nurses or other medical personnel, or public safety officers. The Denali Commission is providing \$500,000 with the balance coming from AHFC, the state housing corporation. Projects include 18 units in Nome for teachers and public safety professionals, with the development led by Nome Public Schools; three rental units each are planned for teachers in Brevig Mission and Shaktoolik, both in the Bering Strait School District; two units for teachers are planned in Nulato for teachers, with the project led by Yukon Koyukuk School District, and Kivalina will see two new rental units for teachers, with the project sponsored by the Northwest Arctic Borough School District.

Housing needs are critical for professionals working in rural villages, with the need being acute for teachers in small, local school. Quality of life issues are a major factor in high turnover among education workers in rural Alaska, and teacher turnover complicates efforts to raise performance by students.

Alaska Business News Summaries

Alaska tour operators nervous about upcoming season; virus impacts on cruise ship travel

Alaska tourism operators are nervous about the upcoming summer season because of possible cancellations of advance reservations on cruise ships that could affect what was expected to be another record-breaking visitor year. The virus has already caused 500 cancellations of winter visitor reservations to Fairbanks from China but the numbers are small compared with the million-plus people that would come north on summer cruises. The publicity around the quarantine of the Diamond Princess in Yokohama has cast the cruise industry in a negative light.

So far there have been no changes in advance bookings by cruise lines for blocks of rooms in hotels but that could change if advance bookings begin to lag, or if there are cancellations. However, what is known is that cruise ships normally deployed to Asia will go elsewhere, including to Alaska. This could mean more ships coming earlier to Alaska and possible heavy discounting as cruise firms hustle to fill capacity. In the end there could be more people on ships. But these are big unknowns and it could be tough for Alaska tour operators to plan with any certainty. *Holland America's Westerdam's Asian trips have been cancelled and the ship will arrive in Juneau March 22, without passengers, for a period of maintenance and shore leave for crew. The ship will tie up at the AJ Dock in Juneau.*

Hotel developers ever-optimistic about tourism

The latest is that JL Properties of Anchorage will develop a new 85,000-square-foot, four-story hotel in midtown Anchorage. It will have 146 rooms and will be an "Aloft" hotel, a hotel brand catering to younger visitors, and it is scheduled to open in spring, 2021. The projected cost is \$16 million. Anchorage now has 85,000 hotel rooms. The project is benefiting from a special federal tax incentive program.

State labor department to rework rules on apprenticeships

The state Dept. of Labor and Workforce Development has withdrawn proposed regulations overhauling apprenticeship requirements but the department plans a public hearing on the issue March 6, so a new version of the changes could emerge. Initially the department proposed 12,000 hours of general work experience to qualify for a certificate of fitness rather than the current 8,000 hours required in a registered apprenticeship program. The regulations also loosened the ratio of supervisors to apprentices. Critics in the Legislature said the proposal would help contractors by allowing them to use more lower-cost apprentices.

Voting by mail in Anchorage begins soon; bond issues on ballot

Vote-by-mail ballot for Anchorage's April 7 municipal election go out March 17. Among bonds to be voted on are \$83 million for schools, which is higher than the usual \$50 million to \$60 million because of continuing repairs to schools stemming from the Nov. 30, 2019 earthquake. Also on the ballot is \$43 million for roads and drainage improvements; \$5.4 million in various capital improvements for city-owned facilities; \$4 million for fire protection upgrades; \$3.95 million for park and trail upgrades; \$2.4

- Continued next page

- Continued from previous page

million for police facilities; \$1 million for safe access upgrades; \$5 million for safety equipment related to Anchorage’s public transit system; and \$830,000 for leasing rather than purchasing certain emergency medical equipment. Voting on the bond package, which totals over \$148 million, will be watched closely as a barometer of confidence in the local economy.

Juneau complains about garbage dumping by cruise ships

Municipal officials in Juneau complained to cruise companies about dumping of garbage in 2019, citing data that 3.3 million pounds of waste went overboard between Jan. 1 and Oct. 31 last year. Most cruise ship waste goes to Juneau’s landfill, which accepted 1,534 tons of waste from the ships last year. Cruise line officials said most waste is dumped in ports in Washington state and British Columbia where cruise ships depart and return on their Alaska voyages. Cruise firms are working on a solution for the problem.

Bill revamping state liquor licensing, regulation on fast-track in Legislature

A bill that updates the state’s liquor licensing and regulation law passed the state Senate and is poised to move quickly through the House. Senate Bill 32 involves a comprehensive update for Title 4, the liquor regulation law, and injects new flexibility in what kinds of activities can be allowed, for example special events in brew-pubs.

If governor’s cut to school debt assistance prevails property taxes to rise

Anchorage property tax collections will rise if Gov. Mike Dunleavy’s proposal to fund municipal school debt reimbursement at 50 percent for a second year is sustained by the Legislature. The total effect on Anchorage would be \$21 million but the city found \$4 million to reduce that to \$16.5 million. If it happens, this would cause property taxes to rise by \$48 per \$100,000 in property value.

Bradners’

....Doing our job for 40 years

Alaska Economic Report - Alaska oldest policy reports

& Special Resources Supplement - (907) 440-6068 fax: (907) 345-5683

3037 South Circle

Anchorage, Alaska 99507 () Bill me () By Credit Card (*see below*)

() Check enclosed - in process

Subscription \$525/year *Alaska Economic Report & Resources Supplement*



Mike Bradner



Tim Bradner

Name _____ Position _____

Company _____ Phone _____

Address _____ Fax _____

City/State _____ Zip _____

E-Mail
timbradner@pobox.alaska.net

• **Credit card:** Type _____ No _____ Exp _____

Petroleum:

Milne Point to reach 40,000 b/d

Hilcorp Energy will increase oil production to 40,000 barrels per day at the Milne Point field on the North Slope by the end of 2020, the company said. That's up from current production of 34,000 barrels per day at the field. Milne Point production increased 14 percent last year in contrast to other North Slope fields that showed declines, state officials said in briefings. At Milne Point Hilcorp has invested more than \$700 million with 60 new wells drilled since 2014 and another 29 planned this year.

A major new development in the field is Moose Pad, a \$270 million viscous oil project completed in April, 2019, with facilities to produce and process up to 85,000 barrels per day. There are currently 10 producing wells at Moose Pad. Milne Point was producing 18,400 b/d in November, 2014, when Hilcorp acquired 50 percent of Milne Point and took over as operator. Hilcorp is purchasing BP's assets in Alaska and will own 100 percent of Milne Point when the sale is completed in mid-year.

Hilcorp's info to be public?

The Regulatory Commission of Alaska will decide by March 12 whether to release Hilcorp Energy financial data for public review. Hilcorp subsidiary Harvest Alaska will purchase BP's share of the Trans Alaska Pipeline and other BP-owned regulated pipelines, and public interest groups have asked that information on the company's finances be made transparent over concerns whether Hilcorp has the financial resources to pay its share of costs if there is a major spill or other accident.

Drilling starts at Charlie-1

Australian independent 88 Energy began drilling at its Charlie-1. Charlie-1 is considered a step-out appraisal of a well drilled in 1991 by BP called Malguk-1. BP's well encountered oil shows and gas readings during drilling but was not tested because

– *Continued top right*

Charlie-1 well is underway (Cont.)

operational complications resulted in lack of time before the close of the drilling season. It was also drilled using vintage 2D seismic, which was insufficient to determine the extent of targets encountered. 88 Energy subsequently undertook revised petrophysical analysis, which identified what is interpreted as a bypassed "pay zone" in the Malguk-1. 88 Energy also completed acquisition of modern 3D seismic in 2018, in order to determine the extent of the discovered oil accumulations.

Charlie-1 will intersect seven prospects, four of which are interpreted as oil bearing in Malguk-1 and are now targets for appraisal. 88 Energy subsidiary Accumulate Energy Alaska, Inc. will manage the project with Premier Oil Plc funding \$23 million. Flow testing is planned for April.

Competition for Furie gas assets

Kachemak Exploration LLC, owned by GER Holdings and Melody Capital Partners are competing with Alaska-based HEX LLC to buy bankrupt Furie Operating's Cook Inlet gas producing assets. HEX was to do the acquisition but was struggling to raise money. It looked as if Kachemak Explortion would prevail but on March 4 the Alaska Industrial Development and Export Authority approved a \$7.5 million loan for HEX. Furie's assets are producing oil and gas leases in Cook Inlet, a gas production platform, pipelines to shore and a processing facility. Gas is being produced and supplied to customers.

Alaska income dips for COP

ConocoPhillips, or COP earned \$1.52 billion in Alaska's net income in 2019. That's down from \$1.81 billion in 2018. In 2018 the company had net returns of \$1.466 billion, the company said in financial reports. Lower oil prices in 2019 were the primary factor in lower earnings, ConocoPhillips said.

Minerals:

BLM decision on Ambler road

We hear the U.S. Bureau of Land Management will issue the Final Environmental Impact Statement on the Ambler road project any day.

Meanwhile, here are four prospective mines in the region that could be made accessible by the road:

Arctic: 43 million metric tons, or mt, identified resources; 4.36% Cu equivalent grade; \$10 billion resource value (life of mine); \$866 million annual revenues;

Bornite: 182 million mt resource; 1.6% Cu equivalent grade; \$13 billion resource value;

Sun: 11 million mt resource; 4.13% Cu equivalent grade; \$1.6 billion resource value;

Smucker: 7 million mt resource; 6.22% Cu equivalent grade; \$1.1 billion resource value;

Total: 243 million mt resources identified; \$26 billion resource value

Note: Identified resources indicated are those discovered to date. Resources will increase with additional exploration once a mine is developed.

EPA: Waste rock again on list

The U.S. Environmental Protection Agency reported again that Alaska led the nation in toxic chemical releases in 2018 for its toxic chemical list and the state of Alaska responded that 99 percent of the material on EPA's list was related to metals mining, almost all mine tailings, or waste rock, that contain very low levels of metals. The Red Dog Mine, north of Kotzebue, accounted for 90 percent of the Alaska mine waste rock listed by EPA for 2018 or 885.7 million pounds.

Oil and gas employment: Petroleum jobs were up 200 jobs to 10,000 in December over November as winter work picked up. Jobs are up 400 over December 2018.

Fisheries:

Virus plays havoc with shipping

The coronavirus is playing havoc with China shipping to and from the Pacific Northwest and this is affecting movement of Alaska seafood. While some fish are sold to China for the domestic market a lot is imported for reprocessing with products then reexported. Ships arriving from China with manufactured goods typically return with Alaska seafood, and this has slowed significantly.

The disruption is also forcing more seafood products into U.S. markets, like farmed salmon, which could create a glut and force prices down.

Dutch Harbor top fish port again

Alaska seafood port rankings for 2018 showed once again Dutch Harbor ranking No. 1 in volume landed at 763 million pounds, fisheries writer Laine Welch reported. Naknek, in Bristol Bay, was tops in seafood value at \$195 million in payments made to harvesters. Trident Seafood's Akutan plant was shown to be the nation's largest fisheries processing plant. The annual "Fisheries of the U.S." report is prepared by NOAA Fisheries. NOAA also reported that Alaska provided 58 percent of U.S. wild fisheries landings at 5.4 billion pounds and led all states in the total value of landings, at \$1.8 billion or 32 percent of U.S. seafood landings.

Kodiak kelp now marketed in L 48

Welch also said California-based Blue Evolutions is now marketing dried kelp from Kodiak as the first commercial product made with Alaska dried ribbon and sugar kelp. The product is sold dried and is rehydrated to be used in salads, soups and broths. Blue Evolutions said Kodiak appears the best Alaska place so far for commercial harvesting of kelp. Mariculture is a small but growing industry for Alaska coastal communities.

Alaska Business News summaries:

Feasibility study on electric intertie connecting Mat-Su, Glennallen, Tok and Delta

A \$1.5 million feasibility study is being done for a possible 380-mile electric intertie that could connect Matanuska Electric Association with Glennallen, Tok and Delta. Capacity being considered is 230 kV. The line would make gas-fired power available in communities now mainly dependent on diesel. Athna Inc., the Native regional corporation for the Copper River region, is doing the study, which is funded by the Denali Commission. The Copper Valley is already connected to Valdez, with access to the Soloman Gulch hydro project.

Battle Creek Diversion at Bradley Lake hydro set for July completion

The Battle Creek Diversion project at the Bradley Lake hydro facility near Homer is under construction and due to be complete in July, the Alaska Energy Authority's board was told March 4. A winter phase of construction, which involved challenging concrete pours in very cold weather, was successful and is now being wrapped up. Work will resume in April. The cost is estimated at \$40 million and so far things are on budget.

Hilcorp will sublease BP building in Anchorage, remain in its current offices

Hilcorp Energy said it will not move into the 277,000-square-foot BP office building in Anchorage's midtown when its purchase of BP's Alaska assets is completed but will instead expand its presence in currently leased space in the JL Towers buildings, also in midtown. BP doesn't own the 15-story building, having sold it in 2017 to Oak Street Real Estate Capital, a Chicago-based real estate investment firm. BP now leases the building, and Hilcorp will take over the lease and sub-lease space, the company said. BP now sub-leases 3.5 floors in the building with some of the space occupied by Oil Search, which is now engaged in North Slope projects. BP has meanwhile arranged for the Anchorage Community Foundation to take over the BP Energy Center near the BP building, which is used local education and social services groups.

Politics:

State's high court clears way for Dunleavy repeal effort

The state Supreme Court ordered the state Division of Elections to allow signature gathering to proceed with distribution of official booklets on petitions for a special election for the recall of Gov. Mike Dunleavy. If a special election is held it will cost the state \$1.8 million, elections officials said. But if the recall appears on the primary or general election ballot there will be no cost.

It could be an interesting ballot. A voter initiative to increase oil and gas taxes now has sufficient approved signatures to be before voters in either the primary or general election. There will be noisy campaigns on both sides of this issue.

Want to subscribe?

Email: timbradner@pobox.alaska.net