

Alaska Economic Report

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

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Oil work this winter: Will workers be there?

Pikka, Willow gear up: ConocoPhillips optimistic on court case

Santos Ltd. and ConocoPhillips are gearing up for one of the biggest winter construction seasons in years, although Willow must still be clear of environmental lawsuits. Decisions on those are pending in early November. Santos has said it will employ about 1,000 this winter and 1,800 next winter on its Pikka project. In a court filing ConocoPhillips said it will employ 1,800 on Willow in the next year. Oil work has already been increasing, mostly on the slope. Petroleum employment was up 5.7 percent statewide in July.

But where will these new workers come from? It's unclear. Labor is already scarce in many fields. Although Willow depends on a court decision, the upswing in work on Pikka alone will add considerably to winter demand.

One obvious source is from out of state, but the oil and construction workforce in the Lower 48 is also tight. We have no doubt contractors will find the workers but there will be ripple effects through other parts of the economy. State transportation officials, for example, are concerned that North Slope demand in many fields, like laborers, equipment operators and electricians, will affect state and federal-funded transportation projects newly beefed up with federal Infrastructure Investment and Jobs Act money. The response may be to slow down and stretch out public projects.

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ConocoPhillips confirms: Inupiat are big winners at Willow

North Slope Inupiat communities will be the big winners if the Willow oil project proceeds. The state Department of Revenue mentioned this earlier this year but now ConocoPhillips has affirmed it in a court filing. "Willow's public benefits are staggering," the company said in the filing. The project will generate \$2.6 billion in royalties shared with North

Slope villages for projects to offset impacts of oil development, and the North Slope Borough, the regional municipality, will receive an additional \$1.2 billion. The state of Alaska will receive \$2.3 billion in oil production, property and corporate income tax revenue.

Energy: **Small firm gets Eielson nuclear**

The Defense Logistics Agency, on behalf of the U.S. Air Force, has issued a Notice of Intent to issue a contract to Santa Clara, Calif.-based Oklo, Inc. to build a 5 Megawatt microreactor at Eielson Air Force Base east of Fairbanks. The plant would provide power and steam heat for the base, and is intended as a demonstration for using microreactors at other military installations. Oklo is a small technology company formed 10 years ago. A condition of the contract is that Oklo must secure a Nuclear Regulatory Commission, or NRC, license, which would be the agency's first license for a microreactor, as compared with larger reactors used in power plants or U.S. Navy vessels. The bid was based on proposals offering the lowest price of power to be supplied, as a power purchase agreement.

The award has raised some eyebrows since it went to a small company that has never built a plant, we hear, and more experienced companies, like Westinghouse, appear to have been bypassed. If Oklo cannot meet terms of the contract, which is to have a licensed and operating contract by 2027, the company may have to go back for contract changes. Also, a federal Environmental Impact Statement will be needed, and while those can be done in two years they often take longer. This will be the first EIS for a microreactor, so there will be a lot of issues raised by Interior Alaska communities. Two that have been brought to our attention include how large the "emergency" zone will be for special protections around the reactor and whether the reactor will have to have operators present at all times, which is the case with conventional nuclear plants. The latter is a critical issue for Alaska.

Health care: **\$250 million cancer care nonprofit**

A new health care nonprofit has been formed to own and operate cancer care clinics in Juneau, Soldotna, Anchorage and the Matanuska-Susitna Borough. It is the Aurora Integrated Oncology Foundation and its goal is to purchase existing private cancer clinics in those communities through a \$250 million tax-free bond issuance. The clinics will continue to operate but as nonprofits. The concept is that the savings in nonprofit status and the efficiencies of having a network would result in lower costs. Bill Popp, former long-time executive director of the Anchorage Economic Development Corp, is board chair. The bonds will be issued by the Public Finance Authority, a Lower 48 financial service group that facilitates public purpose tax-exempt financings for municipalities and nonprofits. This requires approvals from local municipal governments which has happened in all communities except in Mat-Su, where it is pending.

Tourism: **Mat-Su: 27.3% growth in rentals**

There's not yet a hard count of 2023 visitors to the Matanuska-Susitna Borough, but bed tax data tells the story: Room nights for short-term rentals (like Bed and Breakfast units) were up 27.3 percent from July 2022 to July 2023 compared with the prior 12-month period. Hotel/motel room price per night averaged \$240 per night over the 12 months compared with a \$214 per night average for the prior 12 months. In July, 2023, rooms averaged \$263 per night. The data is from the Mat-Su Convention and Visitors Bureau.

Economy: Oil and gas employment, spending

McKinley Research: The numbers in 2022

The Alaska Oil and Gas Association released updated economic information on the industry’s employment and spending impact in Alaska at the association’s annual meeting Aug. 30. The study, by McKinley Research, covered activity in 2022. The most recent prior survey was in 2020 and covered activity in 2018. Here are some key findings for 2022:

- Direct employment by producers and major contractors on industry support: *4,105* were employed, 83 percent of them Alaska residents, earning *\$1.1 billion* in wages. In 2018, producers and support companies employed 4,111 (84% of total) and earned \$983 million in wages
- Spending with vendors totalled *\$4.6 billion* to about 1,000 support companies and suppliers. In 2018, *\$4.4 billion* was spent with about 1,000 vendors
- *\$4.5 billion* was paid to the state and local governments; *\$4.1 billion* was in taxes and royalties to state government; *\$449 million* was in property taxes paid to local governments

Substantial additions came from multiplier effects of industry spending and the direct and indirect impacts of government spending of oil revenue:

- With multiplier: Direct payroll and spending by companies:
36,200 jobs; \$3.3 billion in payroll in 2022
- Direct and indirect employment and spending created through revenues to state and municipal governments in 2022:
33,250 jobs; \$2.6 billion in payroll

Totals: 69,250 jobs (16% of all Alaska jobs) in 2022; \$5.9 billion in payroll (17% of all Alaska wages). *Note: In the prior (2020) report the total was 77,600 jobs and \$4.8 billion in payroll in 2018*

By region, in 2022:	Jobs	Payroll
• Anchorage:	20,047	\$1.73 billion
• Fairbanks	2,518	\$183.5 million
• Kenai Peninsula	2,362	\$227 million
• Mat-Su	1,448	\$ 89.3 million
• Valdez	598	\$ 74.2 million
• All other	3,401	\$226.1 million
• North Slope*	5,826	\$728.7 million

* Some double-counting here. These are jobs located on the North Slope but many workers live in other communities and are also counted there. However, some counted on the slope live in the region, and are not duplicated. Out-of-state workers are included in the North Slope count, also.

Economy: Air cargo; rents rise; grocery merger

Construction finally under way on \$200 million air cargo facility at Anchorage's airport

It has been long planned, but construction is finally underway at a \$200 million new air cargo facility at Ted Stevens International Airport in Anchorage. The NorthLink Aviation project involves 90,000 square feet of warehouse space for storing and transferring freight and 15 new "hardstands" for the parking of cargo aircraft. The aircraft parking stands will be in operation in October 2024 and the warehouse is to be operational a year later, in October 2025. Cold storage will also be offered in the warehouse. NorthLink says it has signed long-term contracts with air cargo operators to use its facilities and is discussing other services to broaden its business base. One plan under discussion with U.S. Customs is to allow shippers to clear freight in Anchorage rather than in the Lower 48, the destination of U.S.-bound flights from Asia. This would save time for shippers. The company acknowledged that the Alaska Permanent Fund is one of the investors in the project but did not say how much was invested.

There are two other cargo-related expansion projects at Anchorage's airport. One is a project by Federal Express for a regional freight sorting facility that would free up space in its international sorting center. The other is another cold storage and cargo transfer project, Alaska Cargo and Cold Storage.

\$11 million new mental health emergency clinic in Anchorage

Providence Alaska has started construction on a \$11 million crisis stabilization facility, a walk-in clinic for behavioral health and substance abuse emergencies. Funding is being provided by the state, the Alaska Mental Health Trust Authority and the Municipality of Anchorage. The state has long experienced a shortage of capabilities for dealing with mental and behavioral health emergencies, leading to excessive reliance on emergency rooms and sometimes lodging people in jails.

State DNR drafting regulations for new carbon offset sales in forest lands

The state Department of Natural Resources, or DNR, has started drafting regulations for the new forest carbon credit offset program after an initial scoping review and expects to have draft rules later this year, agency officials told us. Given requirements for state attorneys' review the final regulations should be published in the first part of 2024, officials said. A manager is also now designated to manage the program within the agency. The Legislature authorized carbon offsets to be sold on forests on state lands in its 2023 session. How the program will work is still under review but will likely involve sales of credits in state forests but may also allow individuals to lease state lands or commit private lands for carbon credit sales under the state program. Revenues to the state are likely to be modest, officials said, but should at least cover expenses of the program and help pay for forest restoration and improvement.

Rents across Alaska rose an average of 7 percent for two-bedroom apartments, the most common

Rents rise across the state, in line with inflation

type of rental. It was the largest increase since 2011 but was in line with inflation as building owners grappled with higher utility and maintenance costs. Increases varied by community, with Fairbanks and the Mat-Su Borough seeing 9 percent increases; 7 percent in the Kenai Borough; 5 percent in Anchorage and 4 percent in Juneau. Over the last 12 years rents have increased at an annual average of 2 percent. The data is from an annual March survey of rentals by the Alaska Department of Labor and Workforce Development. The department published the data in September.

Local factors influenced some of the upward pressure. In Fairbanks, newly arrived military families connected with new fighter squadrons at Eielson Air Force Base led to a surge in demand for rentals. The Air Force had adopted a policy of no new on-base housing, asking families to live in nearby communities. Rents in rural communities were high, up to \$1,600 a month in Bethel for a two-bedroom unit. In Kotzebue, rents are reported at \$1,800 a month for a one-bedroom unit.

Data: Wages, personal income, home prices rise in first quarter

Wages in Alaska grew 12.9 percent in the first quarter of 2023, on average, compared with 9.6 percent nationally, the state labor department reported. Personal income was up 6.9 percent for the first quarter of the year; home prices grew 6 percent for the same period while jobs were up 1 percent for the month of July.

Grocery merger raises concerns for protection of union contracts, supply chain in Alaska

The proposed nation-wide merger between grocery giants Kroger, which owns Fred Meyer stores in Alaska, and Albertsons, which owns Carrs-Safeway stores, is drawing close attention from political leaders and organized labor. If the Federal Trade Commission approves the merger, which retail analysts say is likely, Kroger and Albertsons say they plan to sell 14 Carrs-Safeway stores in Alaska to gain FTC approval. A proposed buyer is C&S Wholesale Grocers, based in New Hampshire, which operates grocery warehouses in many states and limited retail outlets, mainly Piggly Wiggly and Grand Union stores in the U.S. Midwest and Carolinas. Since Carrs/Safeway and Fred Meyer stores operate in close proximity in many parts of the states, mainly larger cities, it is expected that Carrs stores near Fred Meyer outlets would be sold to C&S. There are now 11 Fred Meyer, 12 Safeway and 11 Carrs grocery stores in the state, giving a combined Kroger-Albertsons entity 34 outlets. If the 14 Carrs/Safeway store are sold there would be 20. Albertsons and Kroger, and C&S as a proposed buyer, say they will honor existing union contracts, but post-merger there are no guarantees of that. Also, there are questions on whether new players would maintain food warehouses or operate a just-in-time type supply chain. This could make major population areas more vulnerable to supply disruptions in a system already dependent on one marine operator – TOTE – and one port in Anchorage.

Petroleum:

ANWR lease cancellations

In a move long anticipated, Interior Secretary Deb Haaland canceled seven remaining federal oil and gas leases in the Arctic National Wildlife Refuge. The state of Alaska agency that owns the leases, the Alaska Industrial Development and Export Authority, or AIDEA, is now preparing a lawsuit to challenge the action. AIDEA will argue that Haaland has no authority to cancel the leases, which were authorized by Congress in legislation passed in 2019. Two small independents that acquired leases in the same lease sale have since relinquished the tracts back to the government.

Tests of central slope discoveries

Australia-based 88 Energy signed a rig contract with All American Oilfield for the use of the company's Rig-111 to flow test the Hickory-1 discovery on the Alaskan North Slope. The well is south of the Prudhoe Bay field and near the Dalton Highway. Testing will begin when cold weather sets in later this year. Pantheon Resources, based in the U.K., will also be doing further evaluations this fall on its discoveries in the same area.

Hilcorp adds gas for Cook Inlet

Hilcorp Energy continues to add incremental new natural gas resources in Cook Inlet. The latest is that new gas production will begin this fall from an \$8 million well drilled last spring into the North Trading Bay Unit from the nearby Monopod platform in the Inlet. This will provide fuel for Monopod operations and eliminate the need to transport gas from Steelhead, another platform, to provide fuel. That, in turn, will make more gas from Steelhead available for sale to regional utilities.

Milne Point production is doubled

Hilcorp achieved 40,000 barrels per day in monthly average production at the Milne Point field in June, according to *Petroleum News*. Hilcorp took over Milne Point from BP in 2015 and has been on an aggressive development program to more than double the field production.

Energy:

DOE renewable energy study

A new study of renewable energy prospects in the "railbelt" southcentral-Interior Alaska regions will not be available to the public now until December. It was to be available in September. However, officials with the U.S. Department of Energy's National Renewable Energy Laboratory, or NREL, did present some preliminary findings to a Chugach Electric Association board meeting last week, saying that achieving 80 percent of "railbelt" electric needs by 2040 is achievable without major cost increases to consumers. This could reduce the need of imported liquefied natural gas, or LNG, to offset declining natural gas production in Cook Inlet.

NREL's study will be a factor in a looming fight in the Legislature next spring over bills to set mandatory benchmarks for electric utilities to supply power needs from new wind, solar and hydro by certain dates.

Private Mat-Su solar is subsidized

The new 8.5 Megawatt solar project in the Mat-Su, north of Anchorage, is now operating and is being lauded for delivering power at just under the price of natural gas. However, the project is benefiting from subsidies, which clouds the argument that solar is now cheap. The Mat-Su borough donated land for the project and the city of Houston gave tax breaks. Federal renewable energy tax benefits also helped.

Minerals:

Bering Straits invests in mine

Bering Straits Native Corp. of Nome, or BSNC, will invest \$2 million in the Graphite One project 35 miles north of Nome, the corporation's board decided Aug. 28. The agreement also provides an option for BSNC to invest another \$8 million in the project. In July, the U.S. Department of Defense announced a \$37.5 million grant to fund a feasibility study, to be matched by the same amount from Graphite One. BSNC's \$2 million will aid in the feasibility study and other pre-development work.

Manh Choh under construction

Kinross Gold officially has its new Manh Choh mine under construction at Tetlin, east of Delta in Interior Alaska. About 100 people attended a ribbon-cutting ceremony at the mine. Trucking of ore to the mill at the Fort Knox Mine, near Fairbanks, begins late this year and will ramp up in 2024. Mine construction will result in a \$75 million payroll and \$600 million in production payroll over the four and a half year life of the project. The trucking will involve 60 round trips per day on 245 miles of the Alaska and Richardson Highways.

BLM decision on Ambler road

The U.S. Bureau of Land Management will release its new Draft Supplemental Environmental Impact Statement, or DSEIS, on the 211-mile Ambler minerals access road Sept. 27, according to sources. State and federal agencies participating with BLM, including the state, now have the document, though it is still confidential. *We're told BLM will propose no route changes for the road but will make a number of recommendations.*

Seafood:

Russia flooding salmon markets

Some seafood processors halted salmon buying the week ending Sept. 2 due to poor market conditions, the Alaska Seafood Marketing Institute, or ASMI, said in its weekly harvest report. Russia is flooding the pink salmon market with a harvest of 472,000 metric tons, more than twice the Alaska catch of 200,000 metric tons. This year is Russia's largest pink salmon catch since 2018. Alaska's catch of pinks is basically flat compared with 2021, the previous high year in the two-year cycles for pink salmon. Coho (silver) and Chinook (king) salmon harvests are below projections, at 52 percent for coho and 75 percent for Chinook.

The total salmon harvest for the year is up, however. Through early September, 215.7 million fish were caught compared with the estimate, for that date, of 189.6 million. McKinley Research does the harvest report for ASMI.

Smaller Bristol Bay catch in 2024

The University of Washington's Fisheries Research Institute has released its forecast for the 2024 Bristol Bay sockeye fishery. It predicts a catch of 26.4 million fish, about a third smaller than that of 2023.

Regulatory:

Wetlands rules are unclear

The U.S. Environmental Protection Agency enacted rules on wetlands regulation in accord with the new U.S. Supreme Court *Sackett* decision but many aspects are still unclear. Developers will still have to make a determination on whether wetlands are connected in their project areas.

Fairbanks:

Local economy stable, in slow-growth mode; energy costs a serious problem

Fairbanks' economy appears stable. Job growth of 1.1 percent is forecast for this year by the State Department of Labor and Workforce Development, and while this is lower than other regions (in Anchorage, 1.6% growth is expected and 2.5% for Southeast Alaska). However, Fairbanks did not lose as many jobs during the pandemic years compared with those communities. Fairbanks is less dependent on tourism and enjoys the stability of its military bases and the University of Alaska Fairbanks with its federally-supported research. There's also a robust tourist season this year, and while the military personnel associated with the new F-35 fighters at Eielson Air Force Base have now arrived with families, four KC-135 motre tankers are being added at Eielson (one is already there) bringing more personnel.

Fairbanks' challenges, however, are the tight local housing and rising costs (an issue across the state and nation), and continued out-migration of working-age adults, also a statewide problem. That translates to declining school enrollment (down 7.3 percent from pre-pandemic levels) and reduced state aid to local schools. The biggest issue is heating costs, however, and this could get worse.

Fairbanks has a continuing energy and air pollution problem

Fairbanks has a continuing air pollution problem during winter cold periods created mainly by pollutants from wood stoves. The Fairbanks North Star Borough, the state and the U.S. Environmental Protection Agency have been grappling with this for years and it's complex problem. Currently, EPA may reject a plan to deal with the problem developed by the state and borough. EPA is considering ordering the use of Ultra-Low Sulfur, or ULS, diesel in place of the No. 1 heating oil now used in the community. ULS diesel is about \$1 a gallon more expensive than No. 1 heating oil, so the impact on building and home heating costs could be substantial.

EPA could order new pollution control equipment on power plants

In addition, EPA may order new pollution control equipment to be installed on coal-fired power plants on local bases, the costs of which the military would have to absorb. But the new equipment may be uneconomic to install on the privately-owned, and aged, downtown Fairbanks coal plant. This supplies steam heat to buildings in the downtown core business area. If this plant cannot operate and supply the heat it's a huge issue for the community. EPA is sympathetic to these problems but the agency's only regulatory tools involve emissions controls from point sources like power plants, or fuel used. The agency is not set up to deal with several thousand home wood stoves. Ironically, a solution that creates higher costs like mandating ULS diesel for home heating will drive more people to wood stoves, worsening the problem. *Bringing more natural gas to the community could be a solution (liquefied natural gas is now trucked in) but the costs and extent of a local gas distribution system are big unknowns. There are now plans to truck LNG from the North Slope (more on this in our next report).*