

Bradners'
Alaska Economic Report
*Alaska's only comprehensive business
 analysis — since 1974*

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Construction, oil drive job growth

Jobs surge in key industries, but does it trickle down?

Alaska wage and salary employment is rising sharply mainly due to accelerated oil work on the North Slope. Jobs rose 2.4% in November and 2.7% for private sector jobs, with the largest gains in construction, up 12.7% followed by oil and gas, up 9.2%, and transportation and warehousing, up 4.5%. All three industries are pushed up by the oil work. Work on the Pikka oil project by Santos Ltd. and Repsol is picking up as the winter season sets in, along with ConocoPhillips' Willow project. Professional and business services, which includes engineering, was up 2.5%. Employment has been gradually increasing over the last year as the oil work accelerates.

What's surprising is that the boost in these high-wage jobs (oil, construction and transportation) doesn't seem to have much of a "trickle down" effect in the general economy. Retail jobs, for example, have been basically flat for an extended period, although retail is somewhat

less of a regional economic indicator because much shopping is online. Leisure and hospitality jobs which includes bars and restaurants, are better indicators because they reflect disposable income. But these were up only 1% in November and down from 2.6% growth in November, 2023. A lot of the North Slope work is done by nonresident workers – about 40% in typical years – but the number may be higher now because of ongoing challenges in hiring skilled labor within Alaska. The state labor department's nonresident workforce data that compares those employed against very accurate Permanent Fund Dividend data, has a two-year lag. So we'll have to wait for a while to get current nonresident workforce data.

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Health insurance premiums: Sharp rise in 2025

Private health insurance rates are soaring in 2025, according to state data. Rates for individual health plans, with two carriers in the market (Premera and Moda) are increasing 16.9% on top of a 38.5% increase from 2022 through 2024. That's a combined 55.4% hike from 2022, including 2025. For small group plans, which are mostly held by small employers, there is an increase of

13.5% in 2025 on top of 19% from 2022 through 2024. That's 32.5% since 2022 including the 2025 hike. In 2024 there were four companies offering policies, but in 2025 Aetna has withdrawn, leaving Premera, Moda and United Health Care, according to data from the Division of Insurance. There was no information on large employers in the data, however. – *Continued on page 8*

Economy:

Alaska wages outpace inflation

One consequence of the oil-fueled growth in Alaska jobs is that wages outpaced inflation in 2023, in some industries by substantial margins, according to Alaska Department of Labor and Workforce Development data. That's no surprise in that companies had to entice workers in fields like oil and gas and construction, industries with recruiting challenges in high-skill fields. Construction wages rose 17% on average with a 6% growth in jobs, adding 917 during the year and with 517 of those in heavy construction, the kind of work being done on the North Slope. Half of the industry's wage growth of \$227 million in 2023 was in heavy construction. Building construction work rose 5%, or 271 jobs; specialty contractor jobs were up 2%, or adding 149 jobs.

Oil and gas wages rose 12%, adding 500 jobs. Professional and business service jobs, including engineering, were up 661, with a 7% boost in payrolls at \$187 million. Leisure and hospitality jobs and wages, which reflect visitor spending as well as spending of disposable income by Alaska residents, saw average pay for workers grow 5% and total wages paid in the economy grow 10%, because more workers were employed. Half of the wage and job growth in leisure and hospitality were in restaurants and bars with the remaining jobs and wages in accommodations, entertainment, arts and recreation. Seafood processing wages were up 15 percent in 2023 despite the industry's problems (see page 7) because employers had to compete in a smaller pool of workers. In retail, a big employer where trends reflect the general economy, jobs were up 1%, wages up 4% and total wages up 4%. Overall for the state there was \$1.7 billion in wage growth in 2023 with 8,612 additional workers.

Energy:

Chugach Electric, natural gas use

Chugach Electric Association said higher costs of liquefied natural gas, or LNG, imports would affect about 11% of its billings to customers. That's the portion of charges attributable to Cook Inlet natural gas purchased from Hilcorp Energy, the major Inlet producer. Chugach's contract with Hilcorp ends in 2028 and it is likely be replaced by imported LNG. Chugach supplies more of its gas needs from the share of the Beluga gas field it owns, which would not be affected by higher-cost LNG. The utility also has access to hydro, wind and solar to supplement natural gas.

Hilcorp and Chugach are meanwhile working to increase natural gas storage in Southcentral Alaska to avoid a repeat of last year's near-meltdown of the regional gas distribution system. That was caused by technical failures in two of five wells used to withdraw gas from a storage facility near Kenai. Repairs were made and two more wells drilled there which should avoid a problem this winter, however. Going forward, Hilcorp is proposing a new gas storage facility near Kenai, with an application now pending before the Regulatory Commission of Alaska, and Chugach is studying a possible 20 billion cubic feet of new storage capacity in the Beluga gas field on the west side of Cook Inlet. If that proceeds it would not be available until 2027. In gas storage facilities surplus gas produced in summer is injected into depleted underground gas reservoirs for withdrawal in winter.

Chugach and Hilcorp are also drilling more gas wells at the Beluga gas field. Chugach is 60% owner and Hilcorp owns 40%. The two have co-invested in 15 new wells at the Beluga field and plan five more wells in 2025.

New world for Alaska in oil markets

Analysis: New carbon rules could disadvantage Alaska State's new sequestration programs will help

Summary:

- Alaska production set to increase as its West Coast market shrinks
- New carbon rules for refiners put Alaska at disadvantage
- State pursues carbon capture to enhance value, sees new Asia markets

Alaska crude oil production is set to increase with new projects under construction. However, there are questions as to where the new oil will go and whether new clean fuel standards in West Coast states could devalue Alaska crude oil.

California and Washington state refineries are now required to calculate the carbon intensity of crude oil they purchase, and Alaska doesn't do well in the rankings. "Alaska oil could be competitively disadvantaged," said Nicholas Fulford, an analyst with Gaffney Cline, a consulting firm.

The calculation includes the complete production cycle from production operations, pipelines and tanker shipments, all which put Alaska crude at a disadvantage compared with conventional crudes and shale oil from western states and Canada. Alaska scores at 15.9 in the Washington carbon intensity rankings compared with 8.4 for western Canadian crude oil and 9.3 for North Dakota oil, said Anthony Pennino, an Anchorage-based energy consultant. Canadian oil sands crude has the worst ranking, at 23.

Carbon calculation includes complete production cycle

These rankings measure carbon emissions along the production and supply chain and shouldn't be confused with quality measures of the oil itself, such as the API gravity. Much of Alaska's disadvantage in the carbon ranking comes from the emissions from North Slope production plants, Pennino said. When they buy crude oil with higher carbon intensity scores, like from Alaska, the new rules require refiners to purchase offsets to reduce the carbon intensity of the supply chain, which imposes a financial penalty.

Washington state's standards will tighten under legislation passed in 2021. Fuel suppliers will have to show a 20% decrease in carbon intensity below 2017 in the supply chain by 2037, using 2017 as a base year under the Washington statute. "As these standards become more stringent they will significantly affect the value of Alaska's crude oil," said Frank Paskvan, an affiliate professor with the University of Alaska Fairbanks, who is advising on carbon capture projects.

Closing of refineries in California tightens market

The California and Washington state carbon rules aren't the only problem facing Alaska producers. Re-

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Fewer refineries tighten market

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cent closings of refineries in California and the shift of demand for lighter-grade crude oil have knocked Alaska out of a market there it once dominated. In the Pacific Northwest, where Alaska is still the main supplier, refineries have access to increasing volumes of shale oil, which have lower carbon intensity scores than Alaska crude. All this means more North Slope oil that may suffer under the new carbon rules will be coming into a shrinking West Coast market the state once dominated.

Alaska officials estimate the state's current production, now about 480,000 barrels per day (b/d), could reach 600,000 b/d and more with new North Slope projects starting in late 2025 and 2026 and continuing to 2029. Incoming U.S. President Donald Trump hopes to boost it further. Trump promises to open up prospective places in northern Alaska including the Arctic National Wildlife Refuge, or ANWR and send a flood of new production into domestic markets and Asia. It remains to be seen how industry will react to Trump's initiative,

But Trump may be right about Asia. Occasional shipments are now made from Alaska to Japan and China when spot markets make it advantageous, said Ryan Fitzpatrick, commercial analyst in Alaska's Department of Natural Resources, or DNR. "We see Asia as a potential growth market," as North Slope production ramps up, he said.

West Coast refineries diversified as Alaska production dropped

In the 1980s and 1990s Alaska supplied almost all crude oil imported into California and the Pacific Northwest after the Trans Alaska Pipeline was built and when North Slope oil fields were flush, said John Crowther, deputy commissioner in Alaska's DNR. This changed as North Slope fields declined over the years. The state now produces about 25% of the 2 million b/d it did in the 1980s. This forced West Coast refineries to diversify their sources of supply. As Alaska producers now prepare to increase output they may find it difficult to regain market share.

There are also fewer refineries. Some in California have shut down due to tightening environmental standards while others are blending crude oil with lighter fuels like ethanol to better meet new rules. Also, North Slope producers are no longer selling to West Coast refineries they owned, and which were captive customers. For years much North Slope oil went to ExxonMobil's refinery at Long Beach, Calif. and BP's at Cherry Point, Wash. But producers shed refineries over the years. ConocoPhillips, a major Alaska producer, sold off downstream assets, as has ExxonMobil in California. BP still owns Cherry Point but it is no longer an Alaska producer. Marathon Petroleum, which has a Washington state refinery, does not have its own production. It is a spinoff from Marathon Oil, which was once an Alaska producer.

West Coast refineries were designed to process North Slope crude which still makes it efficient to pro-

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Alaska producers no longer own refineries

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cess it. Also, a fleet of U.S.-built Jones Act tankers have operated for years between Alaska and the West Coast. These tankers are dedicated to the Alaska and Pacific Northwest trade, but they are aging and will have to be replaced with costly new Jones Act tankers if Alaska is to stay in the game. But that capital cost will further challenge Alaska producers in keeping Alaska oil competitive and defending a shrinking market share and it may encourage them to look to Asia where the Jones Act doesn't apply.

Also, some of the new Alaska production will come from companies new to the state and who don't have West Coast relationships or Jones Act tankers. Australia-based Santos, Ltd. and Repsol, based in Madrid, have their new Pikka field under construction, which will start up in late 2025. The two companies are likely to expand their production because they have discoveries on nearby leases. Some of this oil may be going to Asia, where Santos has relationships with refiners.

ConocoPhillips is meanwhile developing its new Willow field on the North Slope and has relationships with West Coast refineries and access to Jones Act tankers. It will likely work its new supply into the West Coast, which may back out other supply.

Alaska taking steps to make Alaska oil more competitive

DNR Deputy Commissioner Crowther said Alaska is taking steps to defuse any competitive disadvantages with West Coast refineries. Companies like Santos Ltd. and Repsol are working on plans to capture carbon dioxide from production plant emissions and sequester it, and the state has approved underground storage of carbon dioxide on state lands, Crowther said. An Arctic Slope Regional Corp. technical services subsidiary is leading a group involving Santos and Repsol working on a North Slope carbon capture and underground storage project. The carbon would be captured from emissions from oil process plants and power plants, a technology that is proven, but expensive.

Removing carbon from the overall production cycle will raise Alaska's score in the Washington state and California carbon intensity scoring and lessen a disadvantage in its production. The goal is to remove a penalty and possibly get a premium, Crowther said. Fulford, of Gaffney Cline, thinks this will work, pointing to carbon capture now done with ammonia produced on the U.S. Gulf coast that results in a premium paid when the ammonia is exported to Europe, where the European Union has carbon intensity scoring not only on imported petroleum-related products but all products. The California and Washington state carbon intensity scoring does not yet have scores for separate North Slope fields. The North Slope oil now gets one overall ranking. But field-by-field scores could be coming. Lowering the North Slope score overall will take more than what Santos and Repsol can do. The score is mainly driven by emissions from the big Prudhoe Bay field processing plants and power station, we're told. A carbon capture project there will require Prudhoe owners Hilcorp, ConocoPhillips and ExxonMobil to get on board with the investment needed.

Petroleum:

North Slope production holds steady

North Slope producers held production steady during December compared with November and year-over-year against December, 2023, according to Alaska production data posted Jan. 3. Alaska North Slope production averaged 480,899 barrels per day (b/d) down slightly from 484,655 b/d in November and 481,267 b/d in December, 2023. Winter is the peak production season in northern Alaska because oilfield processing plants perform with greater efficiency during cold weather compared with the warmer summer months.

All four of the major producing fields on the slope held steady. The Prudhoe Bay field, the largest on the slope, averaged 312,695 b/d in December compared with 314,104 b/d in November and 312,897 b/d in December, 2023. Hilcorp Energy is the operator at Prudhoe Bay and is part owner along with ConocoPhillips and ExxonMobil. The Kuparuk River field, second largest on the slope, averaged 101,165 b/d in December, up slightly from 99,847 in November and 101,227 b/d in December, 2023. Kuparuk is owned and operated by ConocoPhillips, and is west of Prudhoe Bay. Kuparuk will see a production boost in 2025 due to the new Nuna project which recently began producing from an untapped deposit. Nuna will peak at 20,000 b/d, ConocoPhillips said. Alpine, the third largest field, averaged 49,959 b/d in December, almost even with the November average of 49,972 b/d but down slightly from a 52,165 b/d average in December, 2023. Alpine is also owned and operated by ConocoPhillips. The Alpine production data also includes output from two small production pads in the National Petroleum Reserve-Alaska, GMT-1 and GMT-22.

Pantheon announces slope discovery

London-based Pantheon Resources said that its Megrez-1 test well at its Ahpun prospect in the central North Slope is a discovery and that preparations are underway for a long-term production test in 2025. No initial production figure were given. Pantheon has been exploring in the area for several years and has been testing accumulations of oil that have been discovered nearby. The area is south of the Prudhoe Bay field and adjacent to infrastructure like the Trans Alaska Pipeline System and the state-owned Dalton Highway, which allows year-around access to leases held by Pantheon. Another explorer, Australia-based 88 Energy, has also made a discovery in the same area and is making preparations for a flow test.

Pushback expected on LNG imports

Watch for a big pushback from legislators and community leaders as Southcentral utilities move ahead with plans to import liquefied natural gas, or LNG, to offset expected declines in Cook Inlet natural gas production. Utilities say they expect to have an import plan by the end of the month. Politicians will complain but options to fight imports are limited because utilities are legally obligated to assure customers they can supply energy, which is mostly gas-fired. Amid the political noise the Regulatory Commission of Alaska will likely be on the hot seat quickly. Regulators must approve utilities' expenditures on facilities to import the LNG.

Is there any alternative to natural gas for Alaska building heat? Research on heat pumps show they may become an option as technology improves. Experimental heat pumps are now operating in Fairbanks and Northwest Alaska villages.

Seafood:

Saving Bering Sea snow crab catch

The Bering Sea cities of St. Paul and Unalaska negotiated an agreement for processing of 1.5 million pounds of snow crab that could have been lost due to the closure of the Trident Seafoods plant in St. Paul. Trident had announced the closure but the company and St. Paul leaders were caught off guard when the state Dept, of Fish and Game announced an unexpected small snow crab fishery this winter. Snow crab fishing has been closed in the Bering Sea to allow stocks to rebuild. The crab will be processed in Unalaska. This is a shot of good news for the Alaska crab fleet and the cities, which will receive fisheries tax revenue.

Legislature moves to help seafood

Legislators are preparing a package of bills for the 2025 session to help the state's ailing seafood industry. This stems from extensive hearings held from September through December with a follow-up meeting planned Jan. 9 and 10. Here's recap of who presented information over several meeting. All meetings can be watched on Juneau's KTOO Gavel-to-Gavel video coverage of legislative hearings. *Note: We appreciate information for this from Tim Lampin, staff to state Sen. Gary Stevens.*

In December, legislators heard from mainly small fish processors, harbor masters, Alaska Vocational Technical Education Center (AVTEC) and others. Key points: Seafood labor costs have increased 50%, compounded by inflation and high interest rates, and federal rules on wage rates for foreign workers under special visas. Small processors are struggling to get "pack loan" financing for inventory and operations (watch for legislation on this); Economic Injury Disaster Loans from the pandemic placed blanket liens on assets, which restricted access to other financing; high energy, transportation and capital costs have reduced competi-

Small processors often overlooked

tiveness for all seafood firms but particularly for small processors. This is an often-overlooked small segment of the industry that has room to grow now, unlike larger firms that are buffeted by international events they have no control over. Small processors mainly target niche regional markets and usually operate later in the season when larger firms have packed up for the year, legislators were told. Also, regulatory complexities and uncertain climate conditions are deterring investors. Harbor maintenance costs are increasing, putting a burden on coastal municipalities that own them. In this, the state's harbor match cap of \$5 million is outdated and doesn't meet current project needs.

Fisherman disaster funds take years to process, causing further stress and limited access to funds for modernization. In workforce issues, companies struggle to reach high school students and guidance counselors. Training centers are plagued by aging equipment and must struggle to recruit instructors. These problems are not unique to the seafood industry.

At the October meeting, the Pacific Seafood Processors Association, or PSPA, discussed competition from Russia, high labor costs and the need to modernize. Solutions offered include more money for marketing, better training to match what industry needs, and changing the fisheries product development tax credit. United Fishermen of Alaska, or UFA, suggested more funding for fisheries research, lowering the state marine fuel tax, training for harvesters and help with infrastructure, such as harbors and cold storage. The National Oceanic and Atmospheric Administration said its research showed that seafood prices dropped 23% for wholesalers and 38% for initial sales from 2022 to 2023, while costs for fuel and labor rose, cutting into margins.

Health care:

2025 sees big health insurance premium increases

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Much of the large group health coverage is by self-insured large employers and is not in the state data. We have anecdotal reports, however, that larger group employers such as municipalities are seeing increases this year in the 7% range.

What’s driving the increases? Insurance companies blame rising charges by Alaska medical providers. We’re sure there’s truth to this, but there’s no independent data available to document it for Alaska. A pilot program for a medical claims data base is just being developed by the state but it won’t cover all costs in the system. A mandatory all-claims data base is needed, which several states have. That would allow all medical claims costs to be tracked. Insurers also blame federal Affordable Care Act requirements requiring coverage of people with preexisting conditions. That is wildly popular, however, so any effort to change it by the new President faces a huge uphill slog. Providers, for their part, blame insurers for practices that drive up their costs, such as routine delays and denials for pre-approval on treatments which cause providers to spend time haggling with insurance companies. Changes in state law will be proposed this spring in the Legislature to deal with this.

That \$1 billion federal broadband grant secure from Trump clawback, state says

The \$1.07 billion Alaska broadband federal grant is secure from any “clawback” of funds by the incoming Trump administration, state officials say. “The funding has been appropriated by Congress and there is a signed grant agreement in place for the entire amount of \$1.017 billion,” Victoria Caltagirone, spokesperson for the Department of Commerce, Community and Economic Development, or DCCED, said in an email. Applications for Alaska broadband grants opened Dec. 16. There is no non-federal match needed for project in “high cost” areas, but a 25% match is needed in non-high cost areas. DCCED also announced availability of \$3.45 million under a separate federal program for Alaska grants. Applications opened Dec. 13. More information: <https://www.commerce.alaska.gov/web/abo/>.

Small Mustang oil field on North Slope begins production

The small Mustang oil field on the North Slope began production on Dec. 29, shortly after ConocoPhillips began operations at its new Nuna project. Mustang is between the Kuparuk River and Alpine oil fields and is owned and operated by Finnex Operating, which drilled new wells after purchasing Mustang from the Alaska Industrial Development and Export Authority. AIDEA had to foreclose on Mustang loans to Brooks Range Petroleum, a small Alaska-based company. Brooks Range did the initial development at Mustang but was unable to complete it after the state halted payments on exploration and development tax credits owed in 2016. That action undercut Brooks Range’s financing plan, causing AIDEA to eventually foreclose on loans. *Petroleum News* reported the startup at Mustang in its Jan. 5 issue.