

# Alaska Economic Report

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

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

October 21, 2024  
No. 14/2024

## Enstar short on gas. HEX to the rescue?

### ***Southcentral Alaska heats homes and buildings with natural gas***

Enstar Natural Gas Co. is short about 6 billion cubic feet of gas of what it needs under contract for 2025, the company says. The company doesn't yet have this amount committed, it said. Enstar typically needs 37 bcf to 38 bcf per year. This is for gas contacted and while it's likely a producer will step in to supply this, to be short of supply under contract two months before the year starts is an uncomfortable position for a utility to be in, and it's a signal of things to come. Actual shortfalls of production are expected to begin in 2027, the state Division of Oil and Gas says.

*A positive note is that HEX Alaska, a Cook Inlet producer, is now drilling into a new gas prospect near its Kitchen Lights field. The results should be known soon. While one well won't meet Enstar's 6 bcf need it will help, if the well is successful.*

Hilcorp Energy is also drilling new gas wells next year but it is unknown whether this is to maintain production in existing fields or targeted to potential new gas deposits, such as the well HEX is drilling. Hilcorp has contracted to supply Enstar with about 32 bcf of its need.

Total regional gas demand is about 70 bcf per year when gas used by electric utilities for power generation and others is included. The state Division of Oil and Gas has estimated that by 2030 existing Cook Inlet fields will fall 20 bcf/year short of meeting the 70 bcf annual demand.

---

#### **Inside:**

- More transportation funds      p. 2
  - Dalton Highway condition      p. 3
  - Pikka capital costs up 20%      p. 6
- 

### **Hurricane impacts on insurance to be felt in Alaska**

Property losses in back-to-back hurricanes in the U.S. southeast will create big ripples in the property insurance market and this will be felt in Alaska, state insurance officials say. "Insurers are raising premiums because of the losses they paid or the cost of reinsurance they bought," state insurance director Lori Wing-Heire told us. "In addition to

premium increases, we are seeing companies be more restrictive in what they will underwrite and placing additional conditions on policies." In some cases deductibles are being shifted to a percentage rather than a flat dollar amount, she said. These are national impacts but Alaska is having its own disasters, landslides and floods in Southeast Alaska. – *Continued bottom, page 3*

## **Education:**

### **\$13.9 million in UA scholarships**

The University of Alaska awarded 932 scholarships to top-performing high school graduates in October. The money goes to help pay tuition. At \$15,000 each, this amounts to \$13.98 million in tuition that parents and incoming UA students won't have to cough up. UA's regents approved increasing the scholarships from \$12,000 to \$15,000 this spring. The scholarships go to graduates from high schools in the top 10% of their class in academic performance. The money comes from UA's endowment, not from state general funds.

\*\*\*

### **MatSu College up 25% in students**

MatSu College outperformed every other major part of the University of Alaska system in its rate of growth this year, according to university data. Fall 2024 enrollment is 25% up from fall 2023. The numbers of students are relatively small – 922 students increasing to 1,304 – at least compared with the university's main campuses in Anchorage, Fairbanks and Juneau. However, the rate of increase is significant because MatSu's growth is mainly with first-time students taking general education undergraduate courses. This is another indicator that the state's economy has emerged from the pandemic years of 2021 and 2022. During the pandemic years enrollment dropped across the University of Alaska system amid a downturn in the state economy.

*The university overall is up 2.1% in enrollment this fall, year-over-year, with the Fairbanks campus up 3.1%, Anchorage up 1.7% and Southeast up 3.9%. Community college-type schools with a technical focus are doing well. Kenai Peninsula College, with its petroleum focus, is up 12.2%.*

\*\*\*

## **Transportation:**

### **More federal transportation funds**

State transportation officials say there will be more federal funding for projects this year and next because several new programs developed under the federal Infrastructure Investment and Jobs Act, or IIJA, are now fully developed. Over \$1.2 billion for surface transportation was spent last year and more will be spent this year, officials say. The state is now in a good position to pursue grants under the programs, which took time to develop, they say. Alaska is now three years into the five-year IIJA. *There are considerable national efforts underway to persuade Congress to extend the IIJA, but the outcome of the Nov. 5 presidential election will obviously influence this.*

\*\*\*

### **Dalton Highway construction**

The state Department of Transportation and Public Facilities has \$118.5 million in Dalton Highway reconstruction and major rehabilitation projects underway this year, with some work extending into 2025. There is an additional \$43.8 million in work underway on the Elliot Highway from Fairbanks to Livengood and which connects with the Dalton north of Livengood. The projects are aimed at improving road conditions for truck transportation to the North Slope (*see related item, page 3*).

\*\*\*

### **Transportation jobs will grow**

Air transportation jobs are expected to grow 12.5% in the next 10 years, the state Department of Labor and Workforce Development estimates in its latest 10-year forecast published in early October. Employment in trucking is projected to be up 8.6%. Water transportation employment will be up only 2.3%, according to the forecast.

\*\*\*

## Dalton Highway condition a problem for oil producers

Truckers are complaining about the condition of the Dalton Highway, the north-south state road that connects North Slope oil fields with Interior Alaska. This isn't just a trucking problem: It's an issue for the oil and gas industry, too. Here's the issue: The Legislature and governor have increased funding for the Dalton but the state Department of Transportation of Public Facilities is having trouble recruiting personnel, a problem facing many industries. DOTPF is short 18 maintenance personnel for the Dalton, the agency says. The basic problem is pay. Wages were increased this year for workers but compensation is below that paid by municipalities and well below what is paid in the private sector. Also, there's no premium for remote work to offset its disadvantages. The road itself is in tough shape in places with big potholes and rocks on gravel parts. Permafrost thaw, which is accelerating, contributes to the problems.

The upshot is that times to deliver equipment and supplies to the slope are getting longer, up to 15 and 16 hours from 10 to 12 hours, and there is more wear and tear, and repair needed, on equipment. Driver fatigue is a growing concern. There's also reported damage to sensitive equipment moved up the Dalton by truck, including oil process modules that required repair after arriving on the North Slope. Excess vibration due to the rough road loosened some connections in modules that required repair, among other problems. All of this will translate to higher costs for transportation on the road.

### **Another problem: BLM asks environmental review for gravel borrow pits**

Here's another problem: The U.S. Bureau of Land Management, which owns lands through which much of the Dalton is built, is now asking for more lengthy environmental assessments for gravel borrow pits along the road. The delays in permitting these means DOTPF crews and contractors have to truck gravel greater distances from pits BLM had approved to sites where repairs are being done. That adds time and cost. As we understand it, this is bureaucratic wrangling because the state does these assessments as part of its National Environmental Impact Statements for the Federal Highways Administration. However, BLM now wants its own assessments, we're told.

### **Insurance: Landslides and floods in Southeast; property owners' trouble getting coverage**

*– Continued from bottom, page 1*

In Southeast Alaska there were landslides in Wrangell and Ketchikan and glacial flooding in Juneau, and very few of these losses were covered by insurance. Generally, consumers do not buy flood and earthquake insurance, Wing-Heire said, and "we have yet to identify a market that would provide landslide insurance." The effect may be insurers pulling back in those areas, and property owners may have trouble getting insurance, she said. This could be a problem for communities facing housing shortages because financing for new residential construction typically requires insurance coverage.

## ***Regulatory brief:***

# **Sackett decision on wetlands won't help Alaska**

Think the U.S. Supreme Court solved the wetlands regulation? Think again. Alaskans hoped the high court's ruling on federal regulation of wetlands last May would clarify this thorny and complex issue, and in Alaska's favor. But things are still muddled, say sources familiar with the issue.

In its historic *Sackett* decision the court ruled that federally regulated waters, which are wetlands or "Waters of the United States" under the U.S. Clean Water Act, must be (1) "relatively permanent, standing or continuously flowing bodies of water described as streams, oceans, rivers, or lakes;" or (2) adjacent "wetlands" with a continuous surface connection to such waters such that they are indistinguishable. On its face, the ruling would appear to exempt large areas of land from the definition of federal jurisdictional wetlands. This would leave states to do the regulating and issuing of permits instead of the U.S. Army Corps of Engineers (USACE), if the Supreme Court decision were to apply. Alaska is heavily affected because much of the state is covered by land that is only wet for part of the year or with no visible surface flow of water. Before *Sackett*, these were automatically deemed federal wetlands.

Construction projects that disturb federally-regulated wetlands, as many do, act as a trigger for a National Environmental Policy Act, or NEPA, review and permit process. NEPA and its associated permits can take years or decades and are often litigated by conservation groups. A separate U.S. Army Corps Section 404 permit and its requirements to mitigate the impacts of the disturbance is also required by the U.S. Clean Water Act. If *Sackett* were to fully apply, this would be regulated by the state Department of Environmental Conservation instead of the Army corps.

Now, post-*Sackett*, the U.S. Environmental Protection Agency appears to be pushing back against the Supreme Court decision and has proposed its own regulatory interpretation of "continuous connection." This came in August when the EPA issued a new rule on how it will comply with the *Sackett* decision. The new EPA regulations continue to assert authority over many types of isolated wetlands and dry land. The Supreme Court's decision requiring adjacent wetlands to be close and connected to an ocean, river, lake, or stream was dropped out of the regulations. Instead, the new regulations rely on asserted "connections" that do not require surface water and connections that are continuous, which conflicts with the *Sackett* decision.

The Pacific Legal Foundation, which argued *Sackett* in the Supreme Court, said EPA has taken a position that the "continuous connection" need not be aquatic, i.e. no water flow, and that a land connection is sufficient to bring the adjacent lands under regulation. If this interpretation holds, it sidesteps

– *Continued on next page*

## **Wetlands regulation continues in Alaska, despite *Sackett* decision**

- *Continued from previous page*

the plain language in the *Sackett* decision, the Pacific Legal Foundation said, essentially nullifying it in several U.S. states, including Alaska. Until the new Army corps regulations interpreting *Sackett* are challenged and struck down, the pre-*Sackett* regulatory definitions remain in effect in large parts of the U.S. including Alaska. In the nation, 27 states including Alaska still fall under the USACE's pre-*Sackett* rules while 23 states are under the new rule post-*Sackett*, which doesn't appear to clarify things.

The wetlands "Waters of the United States" rule, has been changed as each presidential administration over the last twenty years attempted to establish its own definition. A cascade of litigation has resulted. There are now several challenges to the latest 2023 Army corps regulations. These cases will eventually result in court decisions, but the question may once again land in the nation's high Court in some form.

Meanwhile, nothing much seems to have changed in Alaska. Regulated wetlands remain subject to federal permits administered by the Army corps and with the EPA also involved. Developers still have to determine which lands are federally regulated wetlands and which are not, the all-important "jurisdiction" test. It is possible that upland tundra, dry in the summer, would not be subject to the "continuous flow" test but large areas of the North Slope are still wet in the summer. If the wet areas are large, hydrologists will have to determine if the waters are flowing. Under this procedure the Army corps doesn't tell a developer whether the wetlands are regulated or not. The developer must do a hydrology study and convince the agency that they aren't. The corps may or may not agree with the results of the developer's study.

As before *Sackett*, developers' costs include not only the NEPA permit application process and the wetland study but also the time this takes and the potential cost of compensatory mitigation the corps may require. Mitigation procedures and costs are also a muddle, creating other uncertainties.

## **Petroleum:**

### **Hilcorp plans two Interior exploration wells, in Yukon Flats**

Hilcorp Alaska has filed for preliminary regulatory approvals for two exploration wells the company hopes to drill in 2025 in the Yukon Flats basin north of Fairbanks. The company filed oil spill contingency plans for the two wells with the state Department of Environmental Conservation, *Petroleum News* reported. The wells are planned at sites 10 and 15 miles northwest of Birch Creek village. Doyon Ltd. is the subsurface owner with surface lands owned by Tihteet'ait, the village corporation for Birch Creek. Geologists believe the Yukon Flats has good gas potential and, more recently, oil potential as well.

## **Petroleum:**

### **Santos sees 20% Pikka cost hike**

Santos Ltd. has told investors Oct. 17 it now forecasts a 20% increase the capital cost of its new Pikka project on the North Slope. This represents a \$520 million increase over a \$2.6 billion capital cost estimated when the project was sanctioned by Santos and its 49% partner Repsol two years ago. Most of the cost increase is occurring this year but some will be felt in the 2025 and 2026 construction years, the company said in its third quarter financial report. The increased capital cost came as no surprise because of severe winter conditions that affected construction in early 2024 as well as ongoing tight labor and logistics challenges, particularly in moving Pikka's production modules up the Dalton Highway in smaller "truckable" modules. *(See page 3, rough conditions on the Dalton).*

Santos also said Pikka is 67% complete overall and said 12 production wells have now been drilled with seven of these flow-tested for productivity. The higher capital costs for Pikka will now focus attention on whether ConocoPhillips can meet its cost target for the larger Willow project, which is now in construction and experiencing the same weather conditions, labor and logistics challenges as Santos is facing.

\*\*\*

**Cook Inlet:** At its Oct. 23 board meeting the Alaska Industrial Development Authority will consider \$50 million in financing for HEX Alaska to do drilling and development work at its Kitchen Lights gas field in Cook Inlet. HEX now has drilling underway to test a potential gas accumulation near the field *(see page 1)*. BlueCrest Alaska says it has a potential investor at its Cosmopolitan field in the Inlet, where there is confirmed natural gas.

\*\*\*

## **Economy:**

### **Data: Job growth returns to 2%**

Wage and salary job increases resumed a 2% annual growth rates in September after a small dip in October, according to surveys of employers by the Research and Analysis unit of the state Department of Labor and Workforce Development. As is normal, private sector jobs led the growth, up 2.3% in September year-over-year compared with 2.1% in August, according to the surveys.

North Slope oil and gas construction and federal-funded projects increased construction by 2,000 in September, up 10.3% from September 2023. Transportation and warehousing jobs were up 900, or 3.5%, boosted by the oil and construction work. Professional and business services, which includes engineering and consulting, was up 700, or 2.4%.

In fields not related to oil and gas or federal projects, health care jobs were up 2,000 in September year-over-year, or 4.9%. The large retail sector showed a slight decline, down 0.3%. Leisure and hospitality, reflecting visitor spending as well as discretionary consumer spending in the state, was up 0.8% in September, again year-over-year. Manufacturing, mainly seafood processing, was down 800 jobs in September, or 5.6%, reflecting problems in the seafood industry. This is a bit of an improvement over August, when seafood jobs were down 1,300 compared with August, 2023.

\*\*\*

### **Other economic indicators:**

- Wages paid in Alaska were up 7.7% in first quarter 2024 against 5.6% nationally
- Personal income rose 5.4% in first quarter 2024
- Outmigration continued at 3,246 in 2023 over 2022, which saw outmigration of 2,489

*Alaska Department of Labor and Workforce Development data*

## **Minerals:**

### **Minerals spending is stable**

Minerals industry spending at the state's large producing mines was generally stable in 2023 compared with 2022 but was substantially up from pre-pandemic 2017, according to analysis by McKinley Research. The work was sponsored by the Alaska Miners Association. \$1.1 billion was paid to Alaska suppliers and vendors in 2023, up from \$1 billion in 2022.

Companies paid \$136 million to the state of Alaska in taxes and various fees, up from \$130 million in 2022 and \$83 million in 2021, which was a pandemic year. In 2017 payments to the state totaled \$81 million. Tax payments to municipalities dipped in 2023 to \$50 million from \$55 million in 2022 and \$44 million in 2021 (a pandemic year), but was up from \$23 million in 2017. Revenues shared to Alaska Native corporations from minerals royalties also dropped in 2023 to \$235 million compared with \$266 million in 2022 and \$161 million in 2021.

\*\*\*

### **NovaMinerals: More gold found**

NovaMinerals reported has found more gold at its Estelle project in the western Matanuska-Susitna Borough north of Anchorage. The company's latest drilling also shows continuity between accumulations found earlier. The project is near Skwentna. The Alaska Industrial Development and Export Authority, or AIDEA, the state development finance corporation, plans a 100-mile industrial access road to the region. Also, the state Department of Transportation and Public Facilities now has funding, mostly federal, to build a bridge across the Susitna River that will facilitate the road.

\*\*\*

### **Red Dog Mine: Economic engine**

The Red Dog lead-zinc mine in northwest Alaska, on lands owned by NANA Regional Corp., is a big economic engine for the area and a major revenue source for all Alaska Native corporations. In May, NANA reported it has received more than \$1.2 billion in royalties from Red Dog since mining started in 1989. Based on requirements in the Native claims settlement act, NANA has shared another \$1.92 billion with other Alaska Native regional and village corporations. In 2022, 76% of "7i" payments to other Native corporations came from Red Dog. The mine has also paid \$303 million to the Northwest Arctic Borough since 2022 and pays 85% for the borough's budget under a negotiated PILT, or payment-in-lieu-of-tax agreement.

Red Dog has also paid \$58 million in a special village improvement fund since it was established in 2022. The mine also employs 900 NANA shareholders with a \$63 million payroll

\*\*\*

### **Red Dog a moneymaker for AIDEA**

The Red Dog Mine is also a moneymaker for the Alaska Industrial Development and Export Authority, or AIDEA. The authority helped finance Red Dog's infrastructure in the late 1980s with \$265 million in road and port financing. Bond for the financing were paid off in 2020 and AIDEA continues to earn an average 6.5% annual interest on its investment. Total income to the authority reached \$606 million as of last year.

*Red Dog Mine profits have dipped this year, its operator, Teck Alaska, reported. Profits for the first half of 2024 were \$123 million, down from \$250 million for the same period of 2023. Teck's third quarter 2024 earnings will be reported Oct. 24.*

\*\*\*

## **Seafood:**

### **Fisheries managers optimistic about recovery; markets a challenge**

Alaska's seafood industry is taking a beating this year mainly due to markets and depressed harvests in some areas. However, state fisheries managers are cautiously optimistic about recovery in many fisheries. For example, following a period of adverse ocean conditions that suppressed harvests, crab and flatfish stocks are looking better, state Fish and Game Commissioner Douglas Vincent-Lang said in a briefing to a special joint legislative seafood task force that met recently. Fisheries are affected in varying ways by changing ocean conditions, with some gaining and some losing, Vincent-Lang said. Bristol Bay red king crab continues to slowly increase and Bering Sea Tanner crab stocks are showing growth. The 2024-2025 allowable Tanner catch is expected to be double the 2023/2024 harvest.

### **Crab showing recovery; cod in Bering Sea, gulf showing recovery, pollock in Bering Sea healthy**

Bering Sea snow crab are showing slow recovery and a small winter 2025 harvest is anticipated, Vincent-Lang told the legislative task force. Dungeness crab stocks appear to have benefited from warmer ocean waters, the commissioner said. Those stocks increased in 2020 and, while now lower, remain above average. Bering Sea pollock stocks remain healthy although they declined in the Gulf of Alaska in 2023 and 2024. Pacific cod biomass in the Bering Sea and particularly the Gulf of Alaska dropped as a result of warmer oceans but have now stabilized, although they are still below normal. Salmon fisheries will continue to be volatile with large swings in the even-off year cycles of pink salmon, while sockeye salmon returns are expected to remain strong in some areas like Bristol Bay but weak in others, such as Kodiak, Vincent-Lang said. Some species are benefiting from changing oceans conditions, like sockeye salmon, cod and pollock, while other species are being impaired, like king and coho salmon and king crab. What's important is that fisheries managers have tools to manage change, although the effects on communities can be painful, the commissioner said. *As for seafood processors and transportation companies, high interest and insurance costs along with limited freezer capacity and labor scarcity are continuing problems, Vincent-Lang said.*

### **UFA urges lower state marine fuel tax, help with insurance**

The United Fishermen's Association urged legislators to consider lowering the state's marine fuel tax, establishing special insurance programs and support for harvester training and hatchery programs. The Pacific Seafood Processors Association urged more support for marketing and amendments to the fisheries product development tax credit. *Several speakers told legislators on the task force that the strong U.S. dollar makes Alaska seafood expensive in overseas markets and the domestic market continues to be challenging with competition from imported seafood. What disappointed people in the seafood industry was Gov. Mike Dunleavy's veto of a \$10 million appropriation to fund a special domestic marketing initiative of the Alaska Seafood Marketing Institute. The governor gave no reason for the veto.* The task force will continue its meetings on Nov. 13 and 14.