

# Alaska Economic Report

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

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## Economic brief:

### **Santos aims for early start of Pikka oil**

#### ***Startup in late 2025, six months ahead of schedule?***

Australia-based Santos Ltd. says work is progressing quickly on its Pikka oil project on the North Slope and there are now hopes for an early startup of the project's first phase at the end of 2025 rather than mid-2026. Pikka is expected to produce 80,000 b/d in its first phase, the company has said. Santos was able to accelerate pipeline construction last winter despite fierce weather, which will give the company a head start when winter construction resumes in the coming season. "The Pikka project is progressing well with the project now 67 per cent complete. High productivity across all scopes of work over the 2023 winter season is pleasing," Santos Managing Director and Chief Executive Officer Kevin Gallagher told investors. On the downside, however, Santos now forecasts a 20% increase in the capital cost at Pikka, the company said in its third quarter financial report to investors. 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, company officials said. Much of the cost increase has already occurred and resulted partly from Santos' ability to accelerate pipeline construction last winter. Costs are still higher than forecast due to severe weather experienced last winter season, which affected construction, as well as higher-than-expected fuel costs. There are also ongoing tight labor and supply-chain challenges and complicated logistics in moving Pikka's production modules up the Dalton Highway in smaller "truckable" modules. Santos opted for a strategy of building small production module units and moving them by truck up the 414-mile highway, which is mostly gravel and connects the North Slope oil fields with the

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### **Airport cargo growth: More fuel sales and a biofuels project?**

Air cargo growth at Anchorage's Ted Stevens International Airport – five new carriers were announced last week – will hike demand for jet fuel and a wide range of aircraft servicing. A new development is that state officials are exploring the refining of aviation biofuels in Alaska that could be blended with conventional jet fuel to help airlines

flying through and refueling in Anchorage to meet carbon-reduction goals. Three state agencies are involved: The Alaska Department of Transportation and Public Facilities, which manages state airports; the state's Alaska Energy Authority and the Department of Natural Resources, or DNR, which manages state forests.

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## **Petroleum:**

### **Santos could complete Pikka oil project early, but costs are rising**

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Interior Alaska highway system. This was in lieu of an industry practice of building large production modules in the Lower 48 or overseas and moving them by sea to the North Slope during the summer when the Arctic Ocean is free of ice. The advantage of the trucking plan is that units can be scheduled and moved more frequently by highway during the year instead of the once-a-year delivery by sea during the summer.

However, this year the Dalton Highway is in rough shape, Alaska trucking companies have said, due to heavy use with new projects in construction by Santos as well as ConocoPhillips with its new Willow oil project, which is larger than Pikka. The state of Alaska, which owns and operates the Dalton Highway, has been unable to keep up with the extra maintenance needs because the state is short-staffed on workers at its maintenance stations along the highway. That's because the state's pay is not competitive, and workers are being lost to other employers who pay more.

Permafrost melting, an effect of climate change in the Arctic, as well as heavy summer rain, another climate-induced impact, is also causing erosion in many places on the highway, state officials said. The rough road conditions caused damage to some of the equipment being moved by truck, creating a need to do remedial repairs on the North Slope that have added costs and delay.

#### **Early startup good news for state treasury, but higher costs will also reduce revenue**

An early startup is good news for state revenues because it will mean more oil production earlier than was forecast in 2025. Although oil royalties and taxes now pay only about 25% of the state budget (it was previously almost 80%) it is still important to the state treasury. *However, higher costs will negatively affect future state petroleum income. That's because Santos and Repsol will be able to take a larger deduction from state petroleum production taxes, which function like net-profits taxes.*

Despite these problems, Santos told the analysts that Pikka is 67% complete overall and that 12 of the planned 40-odd production wells have now been drilled with seven of these flowed to test productivity. The higher capital costs for Pikka will now focus attention on whether ConocoPhillips will meet its cost target for the larger Willow project, which is also in construction and has experienced the same weather conditions, labor and logistics challenges as Santos is facing. There may be more information on this in ConocoPhillips' third-quarter earnings call on Oct. 31.

*Overall, it's going to be another busy construction season this winter on the North Slope. Fueled by the North Slope work, construction employment statewide is increasing with September jobs up 10.3% compared against September 2023. Oil and gas employment rose 7.8% that month, also year-over-year.*

## Anchorage air cargo growth; biofuels too?

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Anchorage's airport has seen a 4.9% increase in air cargo activity in the last two years with another 2% growth expected this year, state officials said at a briefing last week. The current year is expected to set a record with 149.5 million pounds of landed weight or combined weight of the aircraft and cargo, an industry standard for measurement. New carriers include Awesome Cargo Airlines of Mexico flying from Korea to Mexico City via Anchorage; Central Airlines of China, from China to California via Anchorage; ASL Air Cargo, a Belgian carrier, from China to North America through Anchorage; the German Aerologic Air Cargo, from China to the U.S. midwest; the French CMA CGM Air Cargo from Hong Kong to Dallas-Ft. Worth and Chicago through Anchorage. The existing cargo operators will also see growth. *Atlas Air, which operates as a contract cargo operator, is forecasting 2,000 additional flights through Anchorage this year, company officials said last week at the briefing.* What's helping drive the growth is the boom in e-commerce, which results in more packages being shipped by air, with much of it coming from Asia to North America with a refueling stop in Anchorage.

State transportation commissioner Ryan Anderson said the airport is now working on improvements to keep up with the growth. There is \$62 million in airport-funded infrastructure projects underway this year in addition to private-sector cargo development projects. The state projects include runway and taxiway improvements as well as runway lighting, all intended to improve safety, Anderson said. Energy projects are also planned, including a \$3.3 million co-generation project at the airport's north terminal, working with a Federal Aviation Administration grant. It will capture waste heat from power generated with natural gas.

### **The biofuels project is long-range**

This would involve making carbon-neutral jet fuel from biological waste, which could include municipal organic waste but also disease-damaged timber. In 2016 Alaska had 1.6 million acres of damaged spruce and birch, much of it in Southcentral Alaska in the Matanuska-Susitna and Kenai Peninsula boroughs. Dying and dead trees constitute a serious fire danger to communities and state officials have put a priority on finding ways to remove the wood, all the better if it has at least some value such as in biofuels that could help pay for fire reduction.

Airlines are doing increasing work with biofuels as a way of reducing the huge carbon footprint of commercial aviation. The idea for Anchorage is for the biofuel to be blended 50-50 with conventional jet fuel. Marathon Oil, owner of a refinery at Kenai and a major supplier of jet fuel to Anchorage's airport, is experimenting with biofuels at refineries outside Alaska and could possibly play a role in an Alaska biofuels project, state officials said at last week's briefing.

## ***New revenue source?***

### ***State's carbon storage, sales programs move along***

The state Department of Natural Resources has approved draft regulations for the new underground carbon dioxide storage program that would allow industries to lease unused gas reservoir space to inject CO<sub>2</sub> and store it permanently. On a parallel path, a program to sell carbon offset credits from state forests and other state lands is advancing. Gov. Mike Dunleavy hopes the two programs will become sources of new revenue and for underground carbon injection to allow companies developing new Alaska oil and gas projects to meet carbon-reduction goals. That would aid in financing from lenders who use climate-related criteria, state officials say. The underground injection rules govern implementation of the statute authorizing the leasing of unused reservoirs. It is now in a six-month public review prior to final approval by the Department of Law and the state lieutenant governor. DNR expects its underground leasing program to be up and running next spring but the Alaska Oil and Gas Conservation Commission, or AOGCC, must separately secure U.S. Environmental Protection Agency approval for its certification of special "Class VI" wells designed to inject the carbon dioxide, which is corrosive.

#### ***\$50 million grant to ASRC-led group to study carbon capture on North Slope***

Related to this, the U.S. Department of Energy approved a \$50 million grant to a consortium led by ASRC Energy Services and Santos Ltd. for feasibility work on capture of CO<sub>2</sub> in emissions from North Slope oil production facilities. The gas would then be transported to Class VI injection wells on the North Slope once EPA approves AOGCC's certification of those. Santos is presenting its new Pikka oil project as "carbon neutral" to financiers and the capture of emissions is part of that.

*On the forest carbon credit program, the state DNR is now soliciting proposals for a contractor to develop its program and establish verification criteria on how much carbon can be stored. This will allow Alaska forest carbon credits to be listed and sold on one of major U.S. carbon credit registries. Alaska Native corporations already list and sell credits on forest lands they own.*

#### ***State set to again bid for Arctic refuge leases. Restrictive lease stipulations expected***

The board of the Alaska Industrial Development and Export Authority, or AIDEA, approved up to \$20 million for bids in an upcoming federal lease sale in the Arctic National Wildlife Refuge. AIDEA, the state development corporation, may or may not expend the entire \$20 million in bids. Also, the Department of the Interior is expected to impose strict stipulations on leases that will discourage bidding

#### ***New Cook Inlet test well near its target. Hope is for badly-needed gas find***

HEX Alaska, an independent company, is near its target depth on drilling of a new Cook Inlet exploration well intended to tap a hoped-for new gas deposit. New gas is needed. Enstar Natural Gas, the Southcentral gas utility, is short of gas supplies it needs under contract for winter 2025. *In a separate action, AIDEA has approved \$50 million in financing to HEX for new drilling and development.*