

11946 SENATE RESOURCES

To put this into better perspective, Agrium uses 155 mmcf per day at maximum capacity and the ConocoPhillips LNG plant uses 207 mmcf per day at maximum capacity. Conversely, electric and heating utilities use nearly 500 mmcf per day on peak demand days. As the problem of deliverability has grown in recent years, Agrium has born the brunt of winter curtailment requirements to meet demands of the utilities to heat and light homes and businesses of the Cook Inlet homes and businesses.

There are varying opinions within industry circles, with the most pessimistic opinion being that the issue of deliverability could become so pronounced in the near future that there is an outside chance of curtailment of natural gas deliveries to utility consumers as early as the winter of 2005/2006 if solutions are not forthcoming. Solutions to this problem will likely be a combination of new exploration & discovery efforts, rework of aging natural gas wells and fields to improve flow rates.

Other options include improvements to the pipeline systems through increased compression, remediation of choke points in the pipeline system and addressing issues related to the common carrier status of key pipelines to provide improved access by both producers and consumers of natural gas.

A more immediate solution to the deliverability issue now under development is establishment of a natural gas storage facility in Unocal's Swanson River Field. By making use of a depleted underground reservoir structure within the Swanson River Field, Unocal proposes to inject several billion cubic feet of natural gas into the structure during low demand summer months where natural gas will be stored until needed.

During peak demand periods in the winter, this storage facility can take advantage of existing pipeline systems and be tapped to deliver the higher volumes of natural gas needed to meet utility requirements, with the added benefit of taking some pressure off of industrial users to curtail their use of natural gas for plant operations. This project does face potential permitting challenges that may delay or cancel the natural gas storage project, as it is sited within the Kenai National Wildlife Refuge (KNWR), even though the project will not expand the footprint of existing oil and gas facilities within the KNWR. Discussions are ongoing over these permit issues between the industry, State of Alaska and the Federal agencies involved to address these permitting issues.

## North Slope Gas Line Proposals

While the Cook Inlet Basin continues to offer many potential opportunities for significant natural gas discoveries, prudence suggests that sources of natural gas from outside the Cook Inlet Basin should also be explored and developed to assure that long-term natural gas supplies are secured for economies of the Railbelt region. North Slope natural gas offers one such outside source that could supply part or all of the gas demands for the Cook Inlet Basin and Railbelt region for several decades.

At this time, there are six different North Slope gas pipeline related projects in varying stages of development. The following is a brief descriptive of the scope of each project proposed:

- **The 'Big 3' producers 4.5 bcf/day project to the lower 48: \$19 billion with projected completion by 2016.** Known as the 'Highway Route,' this project is

proposed by Exxon, BP Exploration and ConocoPhillips to build a line from the North Slope to Chicago along the TAPS corridor and the Alaska Highway through Canada. This project currently has an application under consideration by the State of Alaska for a fiscal contract under provisions of the Alaska Stranded Gas Act. This contract does not guarantee construction of a pipeline, but does set fiscal terms between the State of Alaska and the applicant if the pipeline is constructed. This application will be presented to the Legislature in the later part of the 2005 legislative session for an up or down vote following a minimum 30 day public comment period. While details of the terms of the fiscal contract proposal for this project are not yet available, the State of Alaska has commented that there are provisions to 'allow' for in-state access to North Slope natural gas transmitted through the pipeline. This would likely include access for a spur line to Cook Inlet, though no company or entity has been identified that will build this spur line as of yet. Financing of this project is likely to be a combination of equity investment and debt financing. The State Administration has also posed the idea of State investment in this project if it goes forward.

- **TransCanada and Enbridge 2.6 to 5.0 bcf/day project to Alberta proposals: Up to \$16 billion with projected completion by 2012.** Each of these Canadian pipeline companies has proposed to build pipeline projects from the North Slope to Alberta, stating that existing capacity is available from the Alberta Hub to transmit ANS natural gas to Chicago or other destination hubs in the lower-48 and eastern Canada. Neither of these projects has a defined component to build a spur line to Cook Inlet, though both have stated a willingness to consider allowances for this need in their respective projects. TransCanada has disputed the ability of any other company to obtain the necessary permits to build a lower-48 pipeline through Canada, claiming that those exclusive permits are already in TransCanada's possession under the terms of the 1978 Canadian Northern Pipeline Act.<sup>15</sup> A resolution to this point of contention is under development within the Canadian Federal government. Financing of either project would likely consist of both equity investment and debt financing.
- **Alaska Natural Gas Development Authority (ANGDA) 2.0 Bcf/day LNG project: \$12 billion with projected completion by 2012.** ANGDA was established by ballot proposition in the 2002 Statewide election. ANGDA was tasked with developing an LNG pipeline project from the North Slope to Valdez, including a spur line to Cook Inlet from Glenallen. Successful State legislation sponsored by Senator Tom Wagoner and Representative Mike Chenault expanded the scope of ANGDA's mandate to include the ability to build a gas transmission line from the North Slope to Cook Inlet. Studies commissioned by ANGDA are in development which examine several aspects of an LNG project to either Valdez or Cook Inlet. Currently, ANGDA has shifted its main focus from the LNG projects to getting North Slope natural gas to Cook Inlet.<sup>16</sup> This project will likely be 100% debt financed.
- **ANGDA 1.0 Bcf/day Bullet Line to Cook Inlet project: \$3.0 billion with projected completion by 2010.** This new project has recently risen to the forefront of projects ANGDA is examining in detail. The project would build a 24-inch line from the North Slope to Cook Inlet to serve local utilities, as well as existing and new industrial

<sup>15</sup> Petroleum News, "Showdown looms," January 2, 2005

<sup>16</sup> Alaska Journal of Commerce, "LNG Authority shifts focus to Southcentral," November 28, 2004

users. Currently commissioned studies will examine aspects of this project in conjunction with the larger LNG and smaller spur line project analysis.<sup>17</sup>

- **ANGDA 500 mmcf/day Spur Line to Cook Inlet project: \$300 million with projected completion by 2010.** This project, part of ANGDA's original voter mandate, is under active study. This project is envisioned to construct a 24-inch pipeline from Glenallen to Cook Inlet and would connect with a larger line either to the lower 48 or to Valdez and would serve existing utilities and existing industrial users. This project will likely be 100% debt financed.
- **The Municipal Port Authority Valdez LNG project: \$26 billion (last public cost estimate) with projected completion by 2011.** The Municipal Port Authority was originally established by the Fairbanks Northstar Borough, the City of Valdez and the North Slope Borough. The North Star Borough withdrew from the Port Authority in 2004. Earlier in 2004, the port authority promoted a plan to line up purchase deals with North Slope producers, negotiate contracts to sell the gas and obtain 100% debt financing to build a \$26 billion project that would take more than 6 billion cubic feet of gas a day from the slope. About half would go by pipeline through Canada on its way to Lower 48 markets. Almost 2.7 bcf per day would move to Valdez, where it would be liquefied for shipment to Far East and U.S. West Coast markets.<sup>18</sup> In late 2004, this plan changed in scope so that the project is now planned to take 3 billion cubic feet a day off the North Slope in a 48-inch pipeline, but could easily ramp up to 4 bcf to 4.5 bcf a day. Of the initial volume, not less than 2.5 bcf a day would go to Sempra LNG in Baja, one of six proposed LNG receiving facilities for the California and Mexican market. The size of a spur line to Southcentral Alaska, part of the port authority's plan to provide gas for in-state use, has not been determined yet. A total project cost for the revised project has not been publicly defined to date.<sup>19</sup> Again, this project would be 100% debt financed.

With this variety of projects in varying stages of development, it is difficult at this time to identify the project with highest likelihood of successful completion, especially in regards to successfully connecting Cook Inlet to North Slope natural gas reserves. In 2005, it is vital that the Kenai Peninsula Borough continues to be vigilant on two key issues.

The first is the terms of any fiscal contract negotiated between the State of Alaska and any applicant under the terms of the Stranded Gas Act (SGA). Even though the Kenai Peninsula Borough is likely not physically located within the route of any proposed North Slope natural gas pipeline, provisions of the SGA allow the State of Alaska to waive any or all municipal property or sales taxes that could be levied on facilities or companies involved in the construction of a North Slope natural gas pipeline. This could include companies and facilities located within the Kenai Peninsula Borough. The SGA does offer the option of a Payment In Lieu of Taxes (PILT) to municipalities which could offset part or all of any municipal taxes waived by the State of Alaska as part of a SGA fiscal contract. But the devil is in the details of any such agreement and the Kenai Peninsula Borough must closely analyze any proposals in this vein to protect the interests of the Borough.

<sup>17</sup> Petroleum News, "ANGDA talks contracts with prospective bidders," October 17, 2004

<sup>18</sup> Petroleum News, "Muni gas line trio settle dispute," June 13, 2004

<sup>19</sup> Petroleum News, "Gas pipeline authority teams with Sempra Energy," December 26, 2004; Alaska Gasline Port Authority website, [www.alaskagaslineportauthority.com](http://www.alaskagaslineportauthority.com)

The second key issue is access to North Slope natural gas through either a spur line connected to a larger project, or a direct pipeline from the North Slope to Cook Inlet. While Cook Inlet still has a high potential for significant new natural gas reserves yet to be discovered, recent events have underlined the need to diversify the sources of natural gas delivered to the communities of the Cook Inlet Basin. In a diversified Cook Inlet supply model, North Slope natural gas should be viewed as a long-term component to the region's economic planning, both as a general energy source for community growth and a feedstock source for industrial growth. In 2004, the U.S. Geophysical Survey raised its speculative estimate of potential conventional natural gas reserves on the North Slope to 211 trillion cubic feet.<sup>20</sup> This potential reserves estimate does not include the 33+ trillion cubic feet of proven reserves already identified on the North Slope. The Kenai Peninsula Borough must advocate throughout the SGA contract negotiation process for provisions that allow access to North Slope natural gas, as well as providing support for any economically viable pipeline project that would connect the Cook Inlet Basin to North Slope natural gas reserves in a timely manner.

## Lower Cook Inlet Federal OCS Lease Sale 199

In 2004, the Minerals Management Service (MMS) offered 2.3 million acres in the Outer Continental Shelf (OCS) area of lower Cook Inlet for lease through Lease Sale 191. Three days before the sale was to take place, Lease Sale 191 was cancelled due to a lack of bidders. In follow up conversations with potential bidders, MMS identified several factors that made the sale unattractive to industry. One of the key issues was the lack of risk reduction for the early phases of any exploration effort.

In particular was the lack of incentives to offset the high risk nature of exploration efforts. The terms and incentives of Lease Sale 191 were weighted towards the production side. This meant that, from the prospective bidders perspective, cost mitigation only kicked in after oil or natural gas were discovered. This was a real disincentive to industry as these terms did very little to reduce the financial risks associated with the highest risk phases of any effort to develop a lease in the OCS. An example of the high cost aspects of exploration is the cost of mobilizing a jack-up drill rig discussed earlier in this report.

The MMS is moving forward with Lease Sale 199, scheduled for May of 2006, and is attempting to address the concerns of industry by revising the proposed lease terms within its statutory scope of authority to do so. The MMS has issued a Request for Information and Notice of Intent to Prepare an Environmental Assessment for Cook Inlet Sale 199<sup>21</sup> and will take public comment through February 10<sup>th</sup>, 2005. A Final Notice of Sale will be issued in early 2006.

Additional Federal legislation will need to be pursued with the Congressional delegation to address coastal community revenue sharing, in particular if the Federal Energy Bill is revived in some form. It may also be necessary to pursue additional authority for MMS to offer additional lease incentives such as 'dry hole' credits and similar incentives available in the Gulf of Mexico.

<sup>20</sup> Petroleum News, "North Slope likely has 211 tcf undiscovered gas," August 1, 2004

<sup>21</sup> Federal Register, Vol. 69, No. 247 / Monday, December 27, 2004 / Notices, page 77265

## Bristol Bay Oil & Gas Area-wide Lease Sale

Another potential source of natural gas from outside the Cook Inlet Basin is the Bristol Bay region. Geographically much closer to Cook Inlet than the North Slope, this region offers significant potential for economically accessible natural gas and oil reserves. Of most significance to the purpose of this report are the potential natural gas reserves.

The Bristol Bay region has seen limited oil & gas exploration efforts since 1906. Twenty-six onshore wells and one offshore well have been drilled to date. The most recent exploration well was drilled in 1985. No commercial discoveries have been made to date, though oil and gas shows were evident in many wells. The last lease sale to take place in the region was a Federal offshore sale that drew \$96 million in bids. Nine years ago, those leases were bought back by the Federal government at the urging of local communities concerned with possible impacts to regional commercial fisheries.

In recent years, economic pressures have generated new calls from local community leaders for a renewal of oil & gas exploration in the Bristol Bay region, with a focus of support going towards onshore exploration only.<sup>22</sup> The severely depressed economies of the region, driven largely by poor salmon prices, have created much of the support for new oil & gas exploration.

The proposed State of Alaska Bristol Bay area-wide lease sale (Appendix A: Map #1) encompasses 3.2 million acres, nearly 3 times the size of the proposed ANWR acreage. While no specific estimates of reserves are available from the State of Alaska, the Division of Oil and Gas has commented publicly that "...the oil potential is in the hundreds of millions of barrels and the gas is in the multiple trillions of cubic feet range."<sup>23</sup>

Upon successful completion of the ACMP consistency determination and the Best Interest Finding processes, a lease sale is tentatively scheduled for October of 2005. Successful lease bids would be finalized by April, 2006. Efforts to begin exploration would likely begin in late 2006 or early 2007, pending necessary permits.

Proposed terms for the Area-wide lease sale include restrictions to onshore drilling only. Exploration of offshore acreage is allowed, but only by using directional drilling technology from onshore drill sites. The State offshore acreage extends to three miles offshore. No offshore facilities will be allowed.

In addition to the proposed Area-wide lease sale in 2005, an exploration license for approximately 329,000 acres surrounding the Dillingham area (Appendix A: Map #2), north of the proposed area-wide lease sale area was recently awarded. Specifically targeted for natural gas, this exploration license was awarded to Bristol Shores LLC, which is owned by four Native elders. Bristol Shores has committed to a \$3.2 million work commitment if the company accepts the seven-year license as proposed by the State of Alaska. This exploration

<sup>22</sup> State of AK, Department of Natural Resources, Division of Oil & Gas, "Bristol Bay Basin Exploration License No. 1, Appendix A, "Summary of Public Comments and Responses."; Christian Science Monitor, "As fishing falls off, rural Alaska wants oil," November 12, 2003.

<sup>23</sup> Petroleum News, "Bristol Bay road considered," July 20, 2003

license did draw opposition from environmental groups concerned with possible impacts from natural gas exploration and production efforts, including an appeal and request for reconsideration of the State's Best Interest Finding supporting the exploration license award. The State denied the appeal and the environmental group that filed the appeal has stated it will not pursue its appeal in Superior Court.

The Kenai Peninsula Borough has several likely interests in the successful exploration and development of Bristol Bay oil and gas reserves. First is the potential of Bristol Bay natural gas reserves being delivered totally or in part to the Cook Inlet Basin as part of a diversified supply model.

Second is the likelihood that Cook Inlet based support companies will successfully bid on a number of contracts related to exploration & development efforts in the Bristol Bay Region. Given the similar environmental and working conditions in both regions, Cook Inlet support companies will have a strong edge on outside competitors for these contracts.

Third, the Cook Inlet, and in particular the Kenai Peninsula Borough, will be likely staging and logistics centers to support exploration and development in the Bristol Bay region. In particular, dock, port and airport facilities in Nikiski, Kenai and Homer are all strategically located to act as staging points for equipment and materials to be delivered directly by air or via ship and barge to proposed dock and road facilities in the Williamsport area of lower Cook Inlet. There are strong opportunities for the Bristol Bay oil & gas exploration infrastructure needs to complement the proposed Pebble Mine project road and port facilities and power grid needs.

And finally, this type of exploration effort will generate stronger economic ties between the communities of the Bristol Bay region and the Kenai Peninsula Borough. As improved road, port and air access is developed, it will become more economical for general commerce to increase between the two regions.

To better facilitate these points, stronger relationships and shared goals need to be developed between the Kenai Peninsula Borough and its communities and the three Boroughs and the many communities of the Bristol Bay region. The Kenai Peninsula Borough has excellent resources and expertise to offer, both within and outside Borough government, that could be of great use to Boroughs and communities of the Bristol Bay region.

## Crude Oil

This section will examine recent trends in oil production and proven oil reserves within the Cook Inlet Basin. An outlook for future production and possible solutions to declining oil reserves will also be examined.

### **Cook Inlet Crude Oil Production and Reserves**

The following chart describes Cook Inlet proven crude oil reserves and total annual production since 1997.

Estimated Cook Inlet Basin Proven Oil Reserves & Total Annual Production 1997 to 2004		
Year	Proven Reserves <sup>24</sup> (Million Barrels)	Total Annual Production <sup>25</sup> (Million Barrels)
1997	120	12.167
1998	76	11.810
1999	76	10.905
2000	72	10.720
2001	186	11.497
2002	186	11.284
2003	166.7	10.059
2004	80	9.092 <sup>26</sup>

The significant upward changes in proven reserves between the years 2000 and 2002 were based on initial estimates for the Redoubt Shoals Field under development by Forest Oil Company through the Osprey platform. The 86.7 million barrel reduction in proven reserves from the year 2003 to 2004 was mostly based on the recent re-evaluation of the Redoubt Shoals Field by Forest Oil Company that significantly down-graded the reserves of this field by 49 million barrels.<sup>27</sup> Redoubt Shoals Field is now forecasted by the State of Alaska to cease production after 2010.<sup>28</sup> In addition to reductions at Redoubt Shoals, significant reductions in proven reserves totaling 34.2 million barrels from 2003 to 2004 at the Granite Point, McArthur River and Middle Ground Shoals units were due to both ongoing production and re-evaluation of the proven reserves data by the State of Alaska.

The following graph<sup>29</sup> describes historic and forecasted crude oil production in Cook Inlet through 2022.

<sup>24</sup> State of Alaska, Department of Natural Resources, Division of Oil and Gas, 1997-2004 Annual Reports

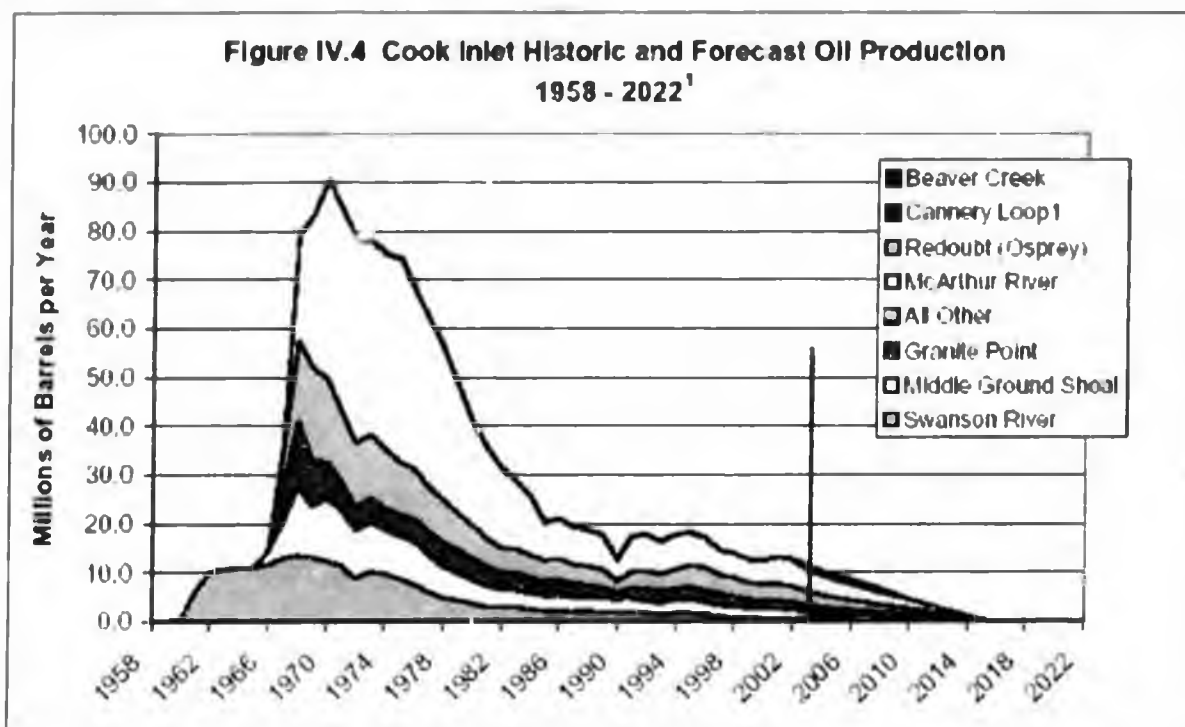
<sup>25</sup> State of Alaska, Department of Natural Resources, Division of Oil and Gas, 1997-2004 Annual Reports

<sup>26</sup> State of Alaska, Department of Natural Resources, Division of Oil and Gas, 2004 Annual Report, Page 4-22  
Forecast for 2004 Cook Inlet Oil Production

<sup>27</sup> Petroleum News, "Redoubt Flame Dwindles," February 1<sup>st</sup>, 2004

<sup>28</sup> State of AK, Department of Natural Resources, Division of Oil & Gas, 2004 Alaska Oil & Gas Report, page 4-22

<sup>29</sup> State of AK, Department of Natural Resources, Division of Oil & Gas, 2004 Alaska Oil & Gas Report, Page 4-23



All proven reserves of Cook Inlet oil are now forecasted by the State of Alaska to be depleted by the end of 2016<sup>30</sup> unless new reserves are found and developed. This is significant in that the Tesoro refinery is the sole consumer of all Cook Inlet oil production, which accounts for approximately one third of Tesoro's requirements for feedstock. If this production decline curve continues unchecked, Tesoro will ultimately meet all its feedstock requirements using a combination of North Slope crude oil and shipments of opportunity from other sources such as the Russian Far East. This will result in a significant increase in oil tanker traffic in the Cook Inlet to deliver this feedstock to the Tesoro refinery unless new reserves are developed within the Cook Inlet Basin.

Based on government and industry speculative projections,<sup>31</sup> there are potential oil reserves yet to be discovered within the Cook Inlet Basin that could be in excess of 1.0 billion barrels of recoverable oil. However, several obstacles must be overcome before active oil exploration could be expected to commence in the Basin to explore these estimates. Those obstacles include the likelihood that reserves will lie within technically difficult geological structures, making both discovery and development very expensive propositions for industry.

Substantial investments will need to be made in new and upgraded facilities and equipment to adequately explore for these new oil reserves. Possible solutions include the State of Alaska adopting new capital reinvestment credits for onshore and offshore facilities improvements needed to explore more technically challenging structures and traps. In addition, new exploration incentives could be implemented for both seismic and exploration drilling work that mitigate risks associated with discovery of these technically more demanding geological structures and traps.

<sup>30</sup> State of AK, Department of Natural Resources, Division of Oil & Gas, 2004 Alaska Oil & Gas Report, page 4-22

<sup>31</sup> U.S. Minerals Management Service, OCS EIS/EA MMS 2003-055, Oil & Gas Lease Sales 191 & 199, page B-4 & Table V-10; Petroleum News, "Escopeta Oil's search for Cook Inlet's 'missing giants,'" August 29<sup>th</sup>, 2004

There is also a likely need to provide additional Federal incentives to reduce risks during the exploration phase of oil & gas development within the Federal waters of the lower Cook Inlet. The Outer Continental Shelf (OCS) represents a significant portion of the potential undiscovered oil reserves of the Cook Inlet Basin. However, OCS Lease Sale 191 that was scheduled in May, 2004 was cancelled due to lack of industry interest. This lack of interest was due in part to the nature of the lease sale incentives offered. These incentives were weighted towards royalty reductions once a discovery was made and production had begun. There were no provisions for financial risk reduction during the exploration phase of lease development. Current Federal law does not allow for this kind of risk reduction incentive during exploration and may need to be addressed through new Federal legislation.

Of most significance is the need to mobilize a jack-up drill rig to Cook Inlet to allow for offshore exploration of new offshore oil reserves. Industry estimates vary, but the likely cost to mobilize a jack-up drill rig to Cook Inlet could exceed \$20 million. This cost estimate only covers the cost to deliver the jack-up drill rig to Cook Inlet and then remove it once exploration drilling is completed. Actual drilling will require additional funds to be invested by the company or companies interested in exploring their prospective offshore leases. This mobilization cost has to date been an insurmountable risk factor that industry has been unable to overcome. It is likely the State of Alaska will need to identify an appropriate form of incentive to reduce this risk to a manageable level that facilitates the contracting of a jack-up drill rig to Cook Inlet. Ultimately, with 90% of potential new oil reserves likely to be discovered in offshore areas of the Cook Inlet Basin,<sup>32</sup> mobilization of a jack-up drill rig to Cook Inlet is a vital piece to development of new oil reserves within the Cook Inlet Basin.

#### **Cook Inlet Crude Oil Exploration Outlook for 2005**

The outlook for crude oil focused exploration in 2005 is minimal at best, though there is new activity. A few new exploration drilling efforts are planned and there is some exploration related activity planned. Several companies are active in crude oil production in Cook Inlet. Here is a recap of those companies:

- **Unocal** will continue with a status quo work plan for 2005. Most of Unocal's oil reserves are offshore in the Granite Point and McArthur River Units. The Swanson River Unit, Trading Bay Unit and other smaller fields make up the remainder. The Baker and Dillon platforms will likely remain shut in. Unocal continues to be the largest producer of crude oil in Cook Inlet and will account for over 80% of Cook Inlet crude oil production in 2005.
- **XTO Energy** is the only active driller in the offshore areas in 2005. XTO will complete a schedule of rework and development wells later this spring. XTO's two offshore facilities, the "A" and "C" platforms, will account for over 10% of Cook Inlet crude oil production in 2005.
- **ConocoPhillips** has one active exploration effort in Cook Inlet at the Cosmopolitan Unit just north and offshore of Anchor Point. Known as the "Cosmo," this unit has seen significant exploration in recent years with two world class direction drilled exploration wells drilled to targets three miles offshore. While no definitive results have been announced, ConocoPhillips has just committed to the State of Alaska to

<sup>32</sup> U.S. Geological Survey National Assessment, 1995 Circular 1118

perform an extensive 3-D seismic survey of the Cosmo by November of 2005, and may choose to commit to a third exploration well in 2006. Ultimately, it is likely that if this prospect is deemed commercially viable, it will need to be developed using an offshore platform.

- **Forest Oil Company** has no plans for new crude oil exploration in 2005. Enhanced Oil Recovery (EOR) has been approved by the State of Alaska for Forest Oil's only offshore facility, the Osprey Platform. However, crude oil production is forecasted to end at the Redoubt Shoals Unit in 2010.
- **Aurora Gas LLC** has announced plans to drill four exploration wells focused on crude oil in 2005. Two of these wells will be on the Westside of Cook Inlet, while the other two wells will be drilled on the Kenai Peninsula. One will be drilled just south of Anchor Point and the second well will be drilled north of Kasilof. Aurora estimates there could be 400 million barrels of unrisks expected recoverable reserves and 140 million barrels of risks reserves.<sup>33</sup>
- **Other Companies** with lease positions or small operations in Cook Inlet, but with no plans for new exploration efforts in 2005 include:
  - **Prodigy Alaska LLC**, with significant offshore leases, is seeking investor to develop its estimated crude oil reserves potential of 111-358 million barrels of oil equivalent.<sup>34</sup>
  - **Escopeta Oil & Gas/BBI**, the largest offshore leaseholder in Cook Inlet, is seeking investors to develop its estimated crude oil reserves potential of 1.3 billion barrels.<sup>35</sup>
  - **Devon Energy** is a new company to Cook Inlet and does not own any leases outright. However, Devon has recently increased its ownership position in the Cosmopolitan Prospect. While still a minority owner, this new investment could be significant.<sup>36</sup>

## Other Projects and Issues

### DR&R Standards for Cook Inlet Offshore Platforms

After 40 years of offshore exploration and development within the Cook Inlet Basin, the issue of Dismantling, Removal and Restoration (DR&R) is coming to forefront with other policy issues important to the oil & gas industry. Currently, while the operators of the 16 existing offshore platforms are required to dismantle and remove the platforms once they are "abandoned," there are no specific DR&R standards for Cook Inlet offshore platforms. Since all existing platforms are located within State waters, Federal authority is restricted to the general terms of the permits issued by the U.S. Army Corps of Engineers. The State statute governing DR&R is very general, leaving Alaska Department of Natural Resources with great latitude regarding platform DR&R.

Industry is beginning to actively seek more clarity on this issue, with several public comments in recent public forums by Unocal about the need to adopt more defined standards for DR&R. This has ramifications on several fronts, including on the sale of existing platforms that still

<sup>33</sup> Petroleum News Publication "The Explorers." Aurora Gas LLC profile, page 30

<sup>34</sup> Petroleum News Publication "The Explorers." Prodigy Alaska LLC profile, page 79

<sup>35</sup> Petroleum News Publication "The Explorers." Escopeta Oil & Gas/BBI profile, page 81

<sup>36</sup> Petroleum News Publication "The Explorers." Devon Canada Corporation profile, page 80

have economic life and on the removal of platforms that have reached the end of their economic life. There is also a preliminary study on the DR&R issue commissioned by Cook Inlet Regional Citizens Advisory Council that is in the final stages of internal review before being released to the public.

The Kenai Peninsula Borough should continue to monitor this issue and be prepared to comment on any standards proposals that may come forward in 2005 and beyond. Tens of millions of dollars worth of AS 42.56 taxable infrastructure, as well as several hundred existing and future jobs could be affected by any new standards proposed.

#### **Cook Inlet National Pollutant Discharge Elimination System (NPDES) Oil and Gas General Permit**

Cook Inlet offshore oil and gas platforms are currently allowed under the terms of the current NPDES general permit, issued by the U.S. Environmental Protection Agency (EPA), to discharge treated produced water into Cook Inlet. These authorized treated discharges include drilling fluids & cuttings, deck drainage, sanitary wastes, domestic wastes, desalination unit wastes, non-contact cooling water, uncontaminated ballast water, bilge water and other fluids generated by operations & maintenance. It should be noted that while the permit covers these discharges, not every facility discharges all these fluids.<sup>37</sup> These waste streams are controlled in a similar, if not more restrictive manner, as the sewage outfall of waste treatment plants in several Cook Inlet cities such as Anchorage, Kenai and Homer.

The implication of this permit to the oil & gas industry is that if permit standards for allowable levels of discharge is restricted to significantly lower levels, the cost of retrofitting or upgrading platforms may be non-economic and could result in the closure of one or more of the offshore platforms currently operating in Cook Inlet.

The existing permit expired April 1<sup>st</sup>, 2004 and was administratively renewed on a temporary basis until the permit renewal process is completed. Previous EPA estimates for a completion date for this permit renewal process was projected for September, 2005. However, EPA issued a notice on January 13<sup>th</sup> that the schedule was about to be revised, so this completion date may be in doubt.

When it is finally issued, the renewed NPDES general permit could negatively impact a significant portion of the Kenai Peninsula Borough workforce and AS 43.56 taxable properties within the Kenai Peninsula Borough. The Kenai Peninsula Borough should continue to monitor this issue closely as it develops and be prepared to offer comment where appropriate.

#### **Pebble Gold-Copper Project**

The Pebble Gold-Copper Project, located within the Lake & Peninsula Borough (Appendix A: Figure 1-1) near the community of Iliamna, will have ripple effects within the economy of the Kenai Peninsula Borough. In the context of this report, if this project goes forward it will likely create new economic dynamics within the Cook Inlet oil & gas industry and support industry.

<sup>37</sup> U.S. Environmental Protection Agency, "Cook Inlet General Permit Information Sheet, February 13, 2004

The Kenai Peninsula Borough Administration has coordinated several opportunities in 2004 for officials to meet with representatives of the City of Homer, Homer Chamber of Commerce, City of Kenai and Kenai Chamber of Commerce and numerous companies through out the Homer, Kenai, Seward and Nikiski areas. These meetings have been very productive in gaining the attention of Northern Dynasty and bring their focus on to the many services and facilities the Kenai Peninsula Borough has to offer in support of the Pebble project. It has also helped these numerous Peninsula entities to gain a better understanding of the needs of the Pebble project and Northern Dynasty Minerals.

The Pebble project will develop what appears to be a world class gold, copper, silver and molybdenum deposit through an open pit mine and mill that will process between 100,000 and 200,000 tons per day of raw ore.<sup>38</sup> Construction will, by conservative estimates begin in 2008, with operations beginning in 2010.

In support of the project, several infrastructure components must be developed including an 85+ mile road connecting the mine to Cook Inlet, an improved port at the Cook Inlet terminus of the road, a support industry base able to offer skills and services specific to the mine operations and a power generation and delivery system capable of delivering 200+ megawatts of electricity to operate the mine. These infrastructure and workforce components will interact with Cook Inlet oil and gas industry on several levels.

First, the new road and port connection to Bristol Bay will facilitate the ability of Cook Inlet based exploration and support companies to better meet mobilization and services needs for any exploration efforts in that region. This road will offer 365 day a year access to the region. If the road and port are not available, this severely restricts the ability to mobilize equipment to the region. This restricted seasonal access in the summer would be by barge and ship, and by aircraft only in the winter.

Second, the Pebble project offers an excellent opportunity for many Cook Inlet oil & gas support companies to expand their scope of services to include mining. Many of the disciplines and skills needed for support of mining operations are very similar to those needed to support oil & gas exploration. Several support companies with operations based on the Kenai Peninsula are in varying levels of dialog with Northern Dynasty to better understand the needs of the project and how their companies can better compete for project contracts.

Finally, there will be hundreds of jobs that will likely be filled by Kenai Peninsula workers if the project begins construction and moves into active operations. The Lake and Peninsula Borough and other boroughs and communities of the Bristol Bay region should and will have first chance at filling the 2,000 construction and 1,000 operations jobs that this project will offer. But with a general population of just over 8,000 in the area from Egegik to Dillingham to Iliamna, it is highly unlikely that the local population of the region could provide the entire workforce needs of this project. The Kenai Peninsula Borough, with its substantially larger population, existing trained workforce and significant training facilities already in place in Kenai, Seward, Soldotna and Homer, is in an excellent position to fill a significant portion of the workforce needs of the Pebble project.

---

<sup>38</sup> Northern Dynasty Minerals, Ltd., Project description, [www.northerndynastyminerals.com](http://www.northerndynastyminerals.com).

As the Pebble project continues to be developed (Appendix A: Figure 1-2 & 1-3), the Kenai Peninsula Borough should be very active in helping to coordinate the efforts of the communities and industries within the Borough to identify and make the most of opportunities the Pebble project will offer. The Kenai Peninsula Borough should also be actively coordinating its efforts with the Lake and Peninsula Borough and other appropriate entities in the Bristol Bay region to provide for complimentary efforts between the two regions that maximize opportunities for both.

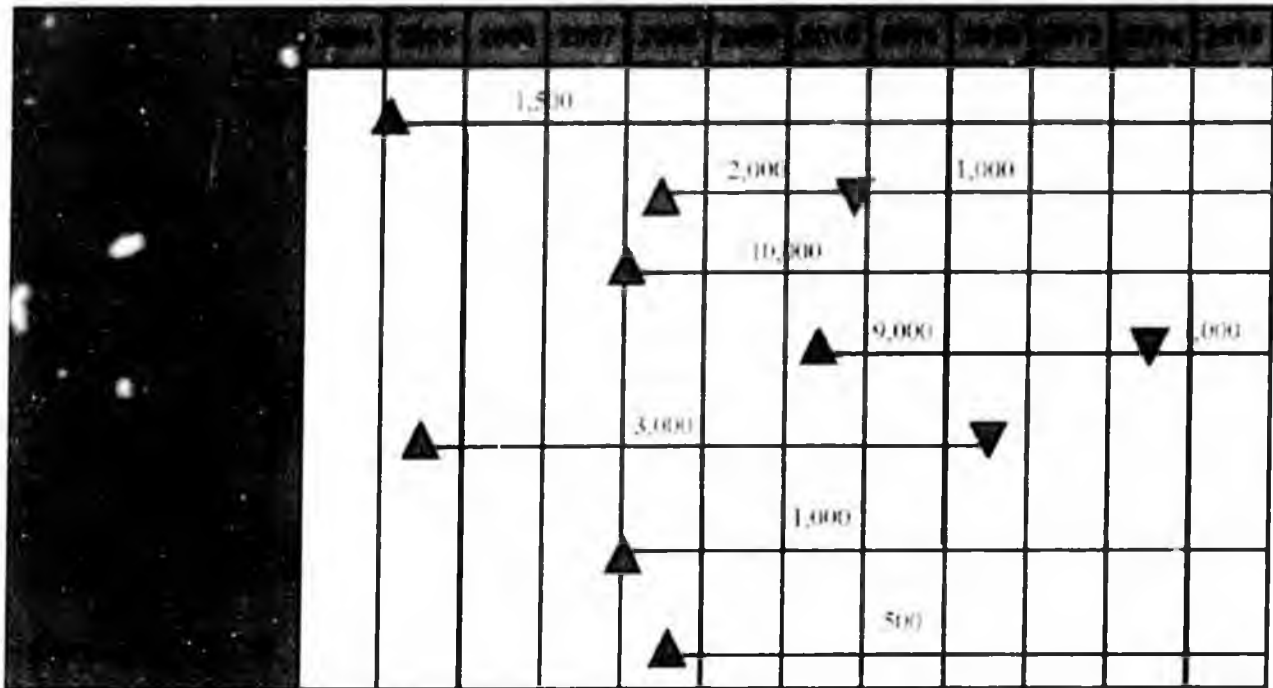
### **Workforce Development**

It has become increasingly apparent in the last year that there are several major projects on the horizon that have reached varying degrees of likely success. Any combination of these projects could create significant demands on the workforce training facilities of the Kenai Peninsula Borough. In point of fact, a number of those projects by themselves would require a tremendous number of workers on their own. Several of those projects include:

- **NPRA-** Initial efforts have already begun to develop oil & gas reserves in this region west of the existing Prudhoe Bay fields. As exploration ramps up, and successful oil & gas discoveries are made, infrastructure will begin to extend out into NPRA. Conservatively, assuming modest success, this development would require at least 1,500 positions to fully develop the resources and infrastructure.
- **Pebble Project-** Slated to employ 2,000 construction and 1,000 operations workers, this project will likely begin construction in 2008 and operations in 2010. This time line assumes a three-year period for permitting and final design work.
- **ANWR-** Several assumptions must be made regarding this project using public information to date. First is that the Federal authorization will pass in 2005. The second assumption would be that a lease sale could be scheduled in time for initial seismic exploration to begin in the winter of 2008. The final assumption would be the size of the resource and the workforce that would be needed to develop it, including the induced jobs. With these assumptions in mind, approximately 10,000 jobs would be created in Alaska by this project.
- **Alaska North Slope Gas Line project-** Assuming that the "Big 3" producers project were to go forward, it would employ 9,000 construction and 1,000 operations workers. Based on published project information, earliest construction would begin in 2010, with earliest operations beginning in 2014.
- **Aging Oil & Gas Workforce-** Not a specific project, but a factor just the same, is the issue of the aging oil & gas workforce in Alaska. Approximately one-third of Alaska's oil & gas workforce is over age 50. This is significant in that most long-term oil & gas workers tend to retire at or near age 55. This represents in excess of 3,000 workers across Alaska that will need to be replaced just to maintain the status quo. Assuming most will retire by the time they are 58, this issue will be ongoing through 2012.
- **Bristol Bay Oil & Gas-** Assuming modest exploration efforts resulting in modest discoveries of new oil and gas reserves, approximately 500 workers will be needed to explore and develop these reserves. This is a very conservative estimate in light of the still speculative nature of the resources of this region .
- **Lower Cook Inlet OCS Leases-** Assuming two significant and distinct discoveries in this region, and using MMS estimates for workforce requirements per platform, exploration and development of this region will require approximately 500 workers.

Using the timelines identified by the MMS, this effort would begin in earnest during 2008 and continue into the future.

The really interesting part of this look at projects is when you line them all up and examine how they overlap. The following chart represents that examination:



If all projects were to go forward as described, there would be a need for 29,000 workers to facilitate the success of these projects. In particular, the period of 2008 to 2012 is a peak period for workforce requirements.

Obviously, the likelihood of every one of these projects going forward as described is questionable. But if even half of these projects, or in some cases even one project goes forward as planned, there will be a serious scramble to train Alaskans to fill those jobs unless preparations begin now to meet these needs in an organized and intelligent manner.

The training facilities located within the Kenai Peninsula Borough are in an excellent position to play a significant role in this effort. Those facilities include the Alaska Vocational Technical Center (AVTEC) in Seward, the Kenai Peninsula College (KPC) campuses in Soldotna and Homer, the Mining and Petroleum Training Service (MAPTS) headquartered in Soldotna, and the Alaska Regional Fire Training Center in Kenai.

All of these training facilities have specific strengths in facilities and programs that, when taken as a whole, offer an outstanding training infrastructure in place. However, given the workforce numbers, types of projects and skill sets that will be required, it is likely that these programs and facilities will need to be expanded to meet even a portion of the training demands that are looming on the horizon.

Preliminary efforts are already underway to coordinate planning between these facilities. An ad hoc group was formed earlier in 2004 that has been working to develop an organization to perform that coordination of planning, as well as to represent the Kenai Peninsula Borough

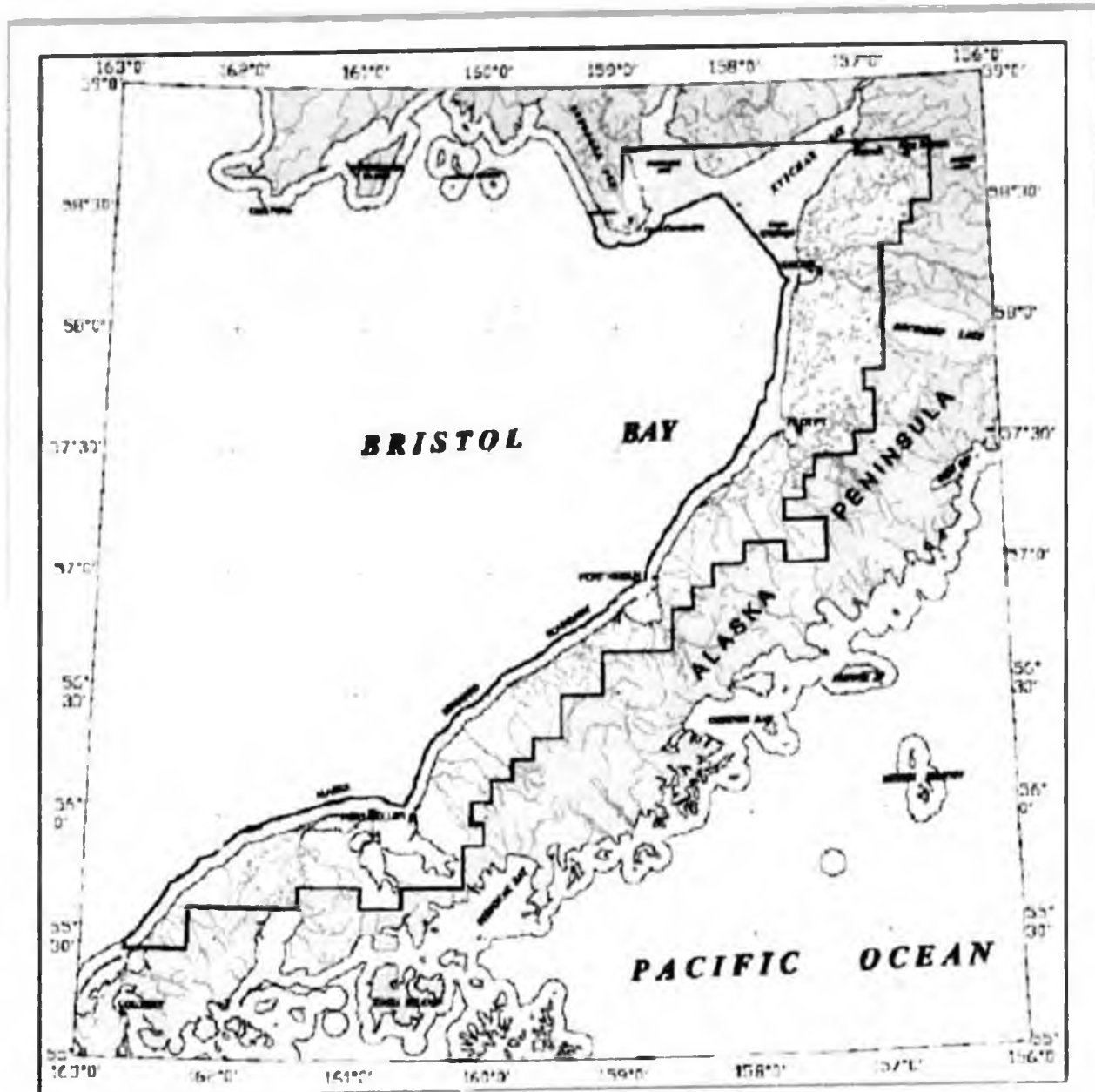
region to the Alaska Workforce Investment Board (AWIB) on an advisory basis. This ad hoc group, currently named the Kenai Peninsula Development Coalition (KPDC) is now working towards forming a more formal organization. Participants in this group include the training providers and the school district, chambers of commerce, trade unions, state and local agencies, and representatives of local business and industry. Additional participation is actively being sought from representatives active in industries not currently represented.

Ultimately, KPDC hopes to be active in identifying and obtaining training related funds from non-traditional grant sources such as industry and foundations, in addition to traditional grants from Federal and State agencies. These funds would then pass on to the existing training providers, the school district and other programs where appropriate to help promote a comprehensive training system based on the Kenai Peninsula Borough that addresses key training needs for new industry projects across Alaska, as well as the ongoing workforce needs of the existing industries and businesses of the Kenai Peninsula Borough.

The Kenai Peninsula Borough should continue to monitor and participate in the development of KPDC, and work to help strengthen and prepare the Peninsula based training facilities and programs, as well as the K-12 programs at the school district. Additionally, the Kenai Peninsula Borough should facilitate discussions between the Peninsula based training providers and the Lake & Peninsula Borough, Bristol Bay Borough and the North Slope Borough. The purpose of those discussion would be to identify and promote culturally sensitive programs that would bring students and trainees from these Boroughs to the Kenai Peninsula Borough for advanced training programs that would complement training programs already in place in those Boroughs.

# Appendix A: Maps & Flow Charts

Map #1, Proposed Bristol Bay Area-wide Oil & Gas Lease Sale



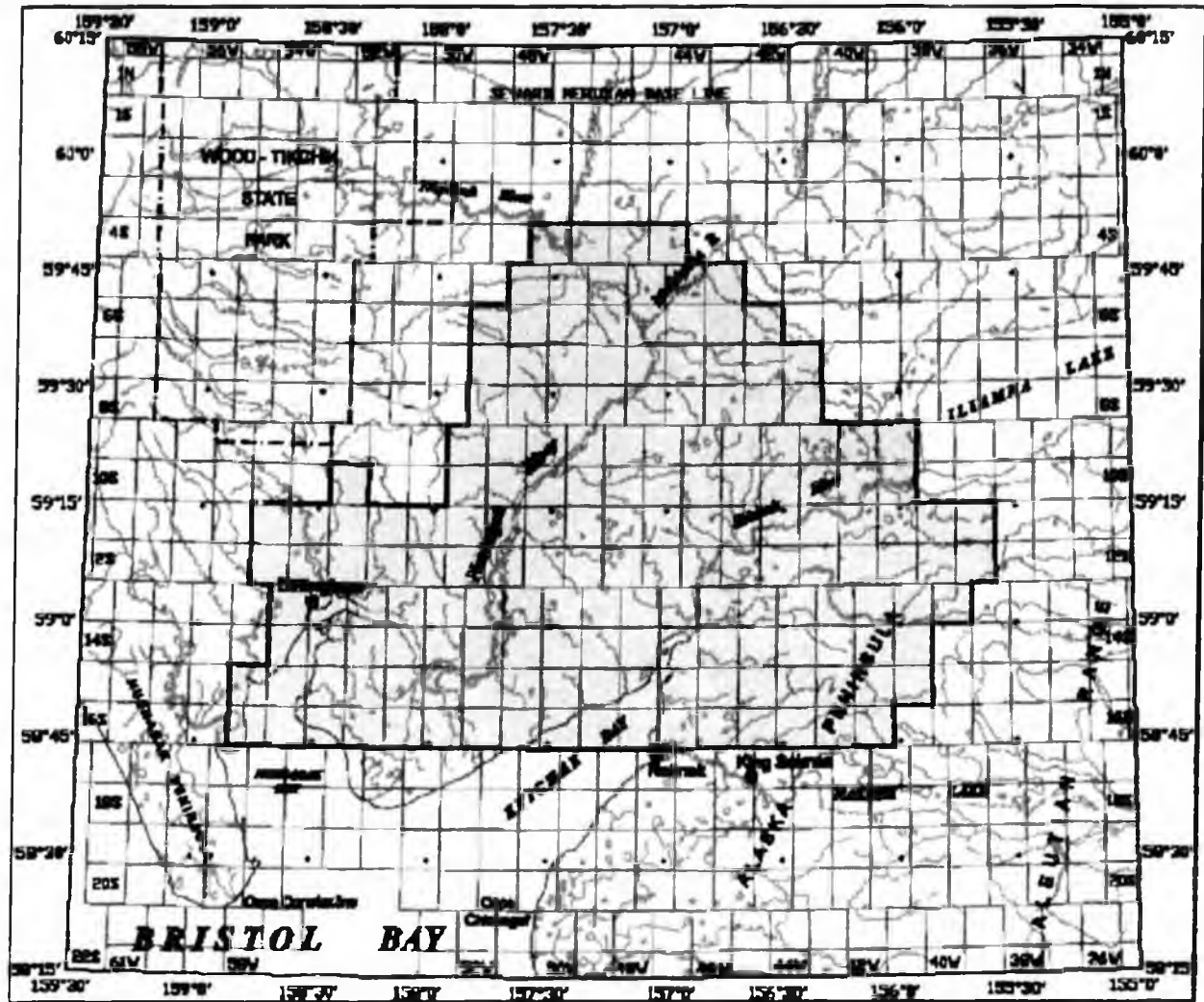
Proposed AK Peninsula Areawide Oil and Gas Lease Sale

Proposed Sale Area = 



Map prepared, edited, and published by the State of Alaska, Department of Natural Resources, Division of Oil and Gas.  
 Alaska State-Area Geologic Protractor, 1927 North American Datum. Clarke 1866 spheroid with a central meridian of 150°30', edge latitude of 90°, northern parallel of 60°, and southern parallel of 30°. ADMR 1/83

Map #2, Bristol Bay Approved Exploration License Area

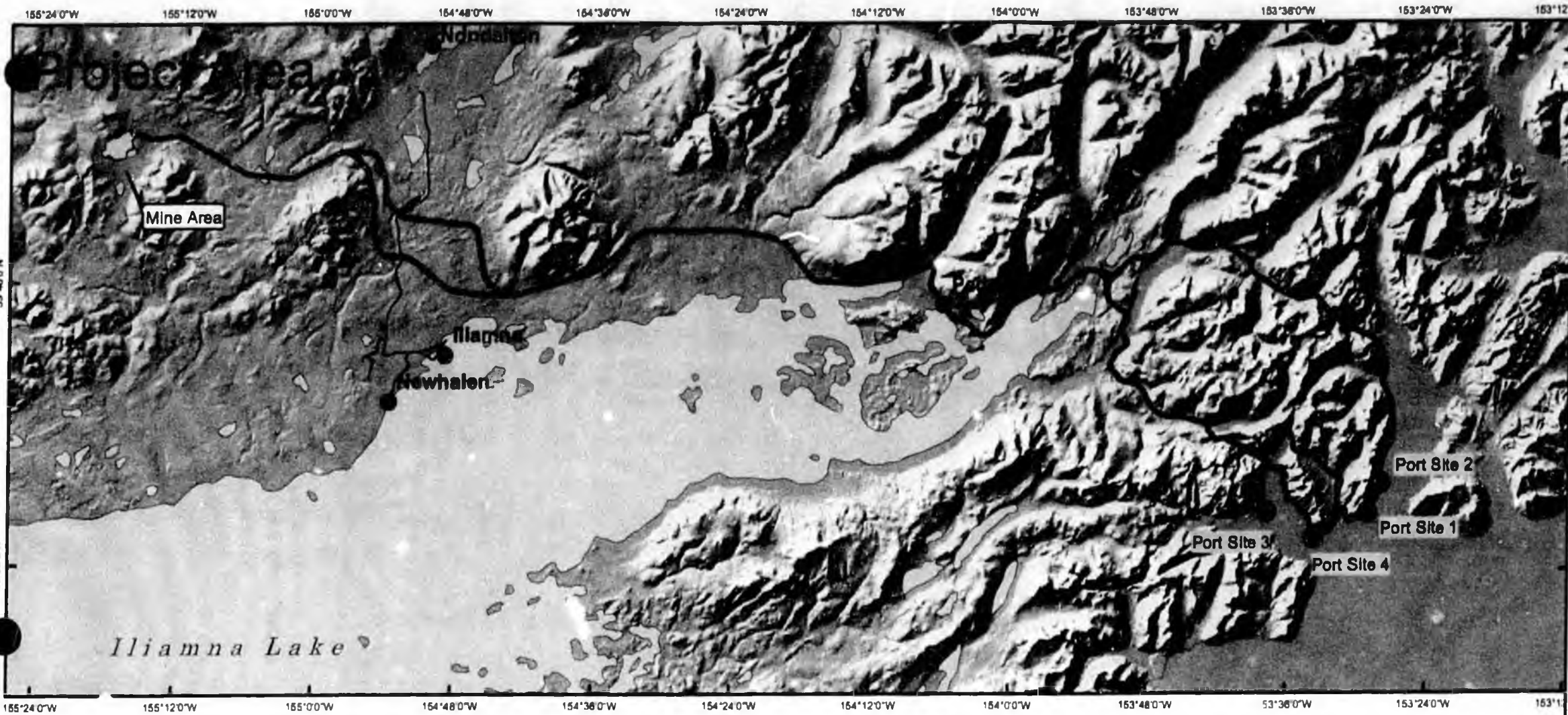


Bristol Bay Basin Exploration License Proposal

Area of Proposal = 



Map compiled, edited, and published by the State of Alaska, Department of Natural Resources, Division of Oil and Gas.  
 Alaska Equal-Area Conic Projection, 102° North American Datum, Clarke 1866 spheroid with a central meridian of 157°W, origin latitude of 60°N, northern parallel of 66°N, and southern parallel of 54°N. 7502



Northern Dynasty Mines inc.



**DRAFT**

**Pebble Project**

Pebble Project Area and Local Vicinity  
Figure 1-1

**Legend**

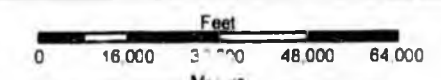
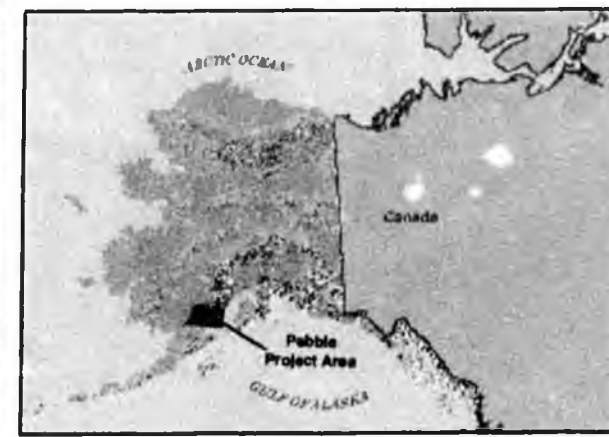
**Routes of Interest**

- Routes of Interest
- Orebody
- Existing Roads
- Port Sites

**Pebble Project**

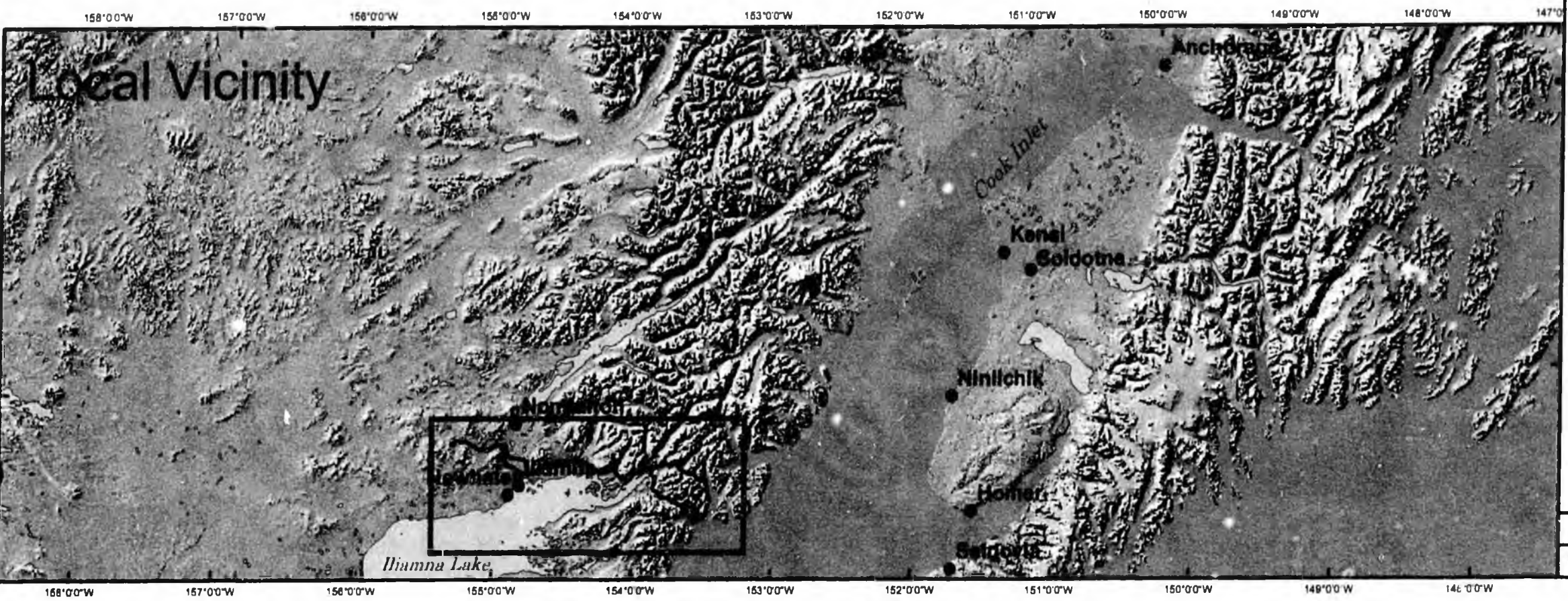
Received Access Routes AutoCAD file from PN&D. 6/7/2004

*Privileged and Confidential*



Scale 1:400,000  
Alaska State Plane Zone 5 (units feet)  
1983 North American Datum

File: RDI_ND_SPLAN1-1_11x17L_1of1.mxd	Date: June 28, 2004
Version: 1	Author: RDI-DWR

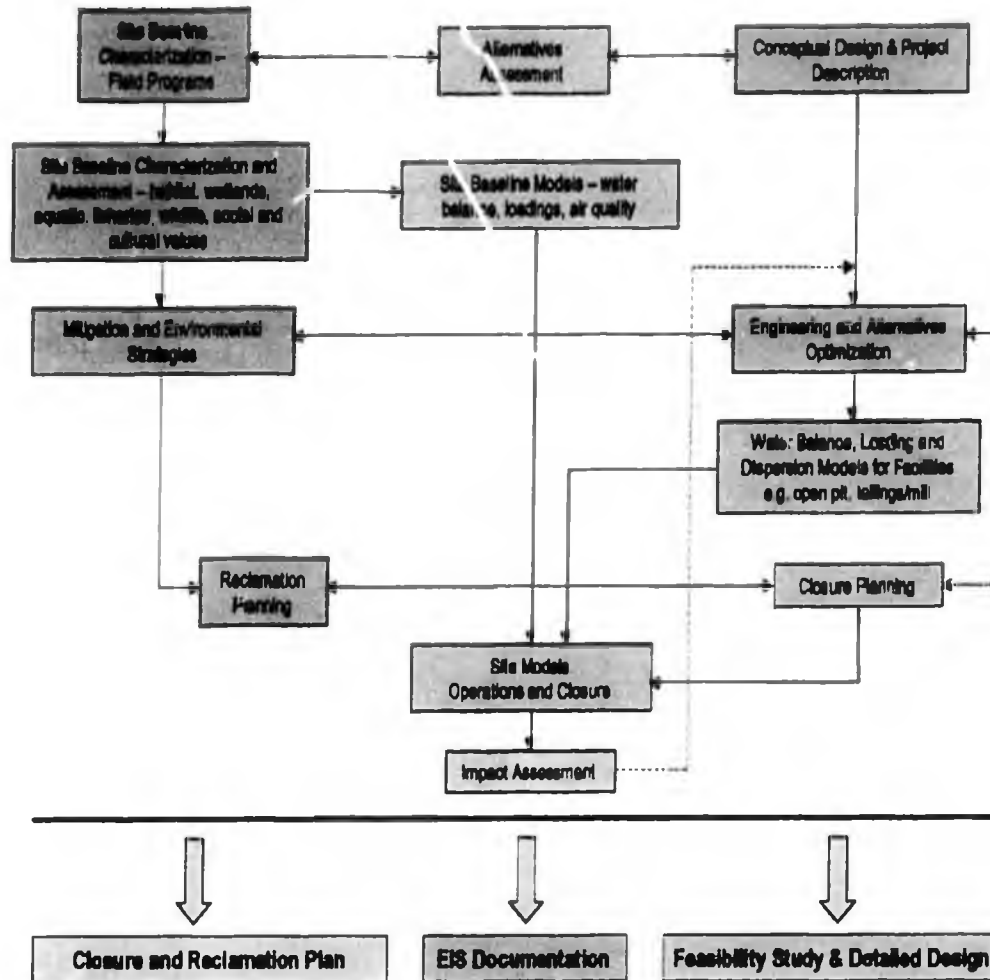




**DRAFT**

**Pebble Project**

Pebble Project Activity Flowsheet  
Figure 1-2

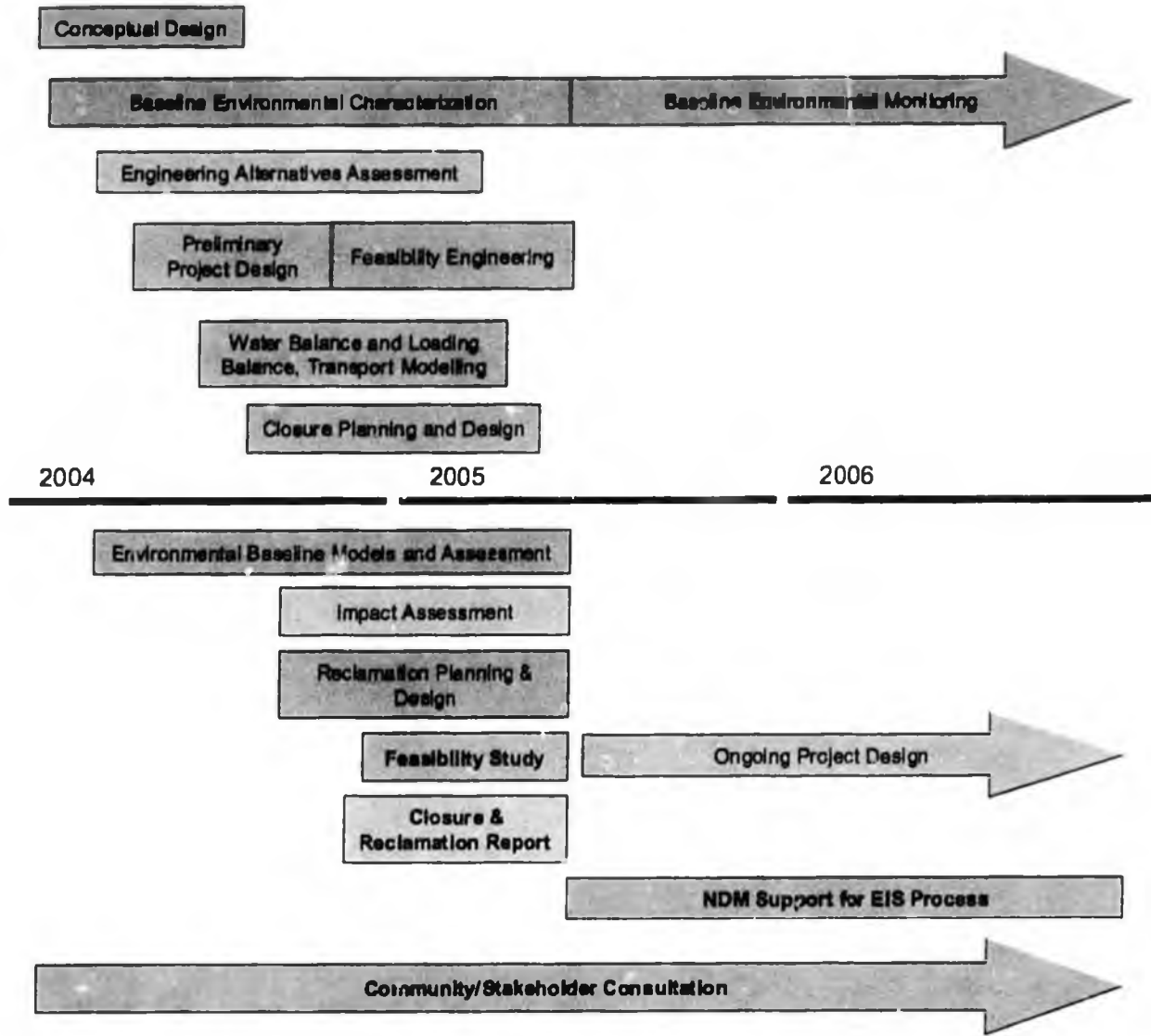




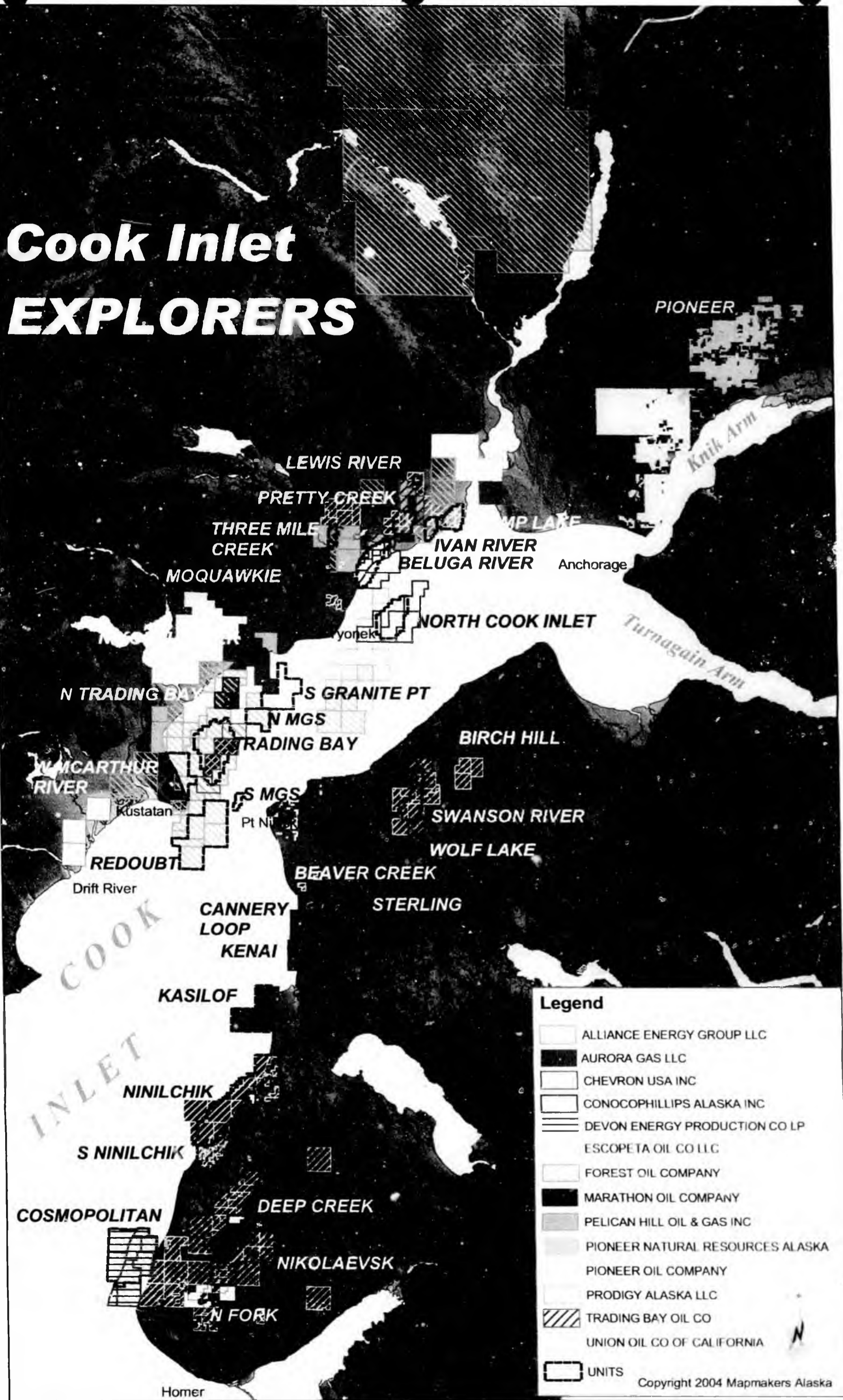
**DRAFT**

**Pebble Project**

Integration of Environmental and Engineering Activities  
Figure 1-3



# Cook Inlet EXPLORERS



## Legend

- ALLIANCE ENERGY GROUP LLC
- AURORA GAS LLC
- CHEVRON USA INC
- CONOCOPHILLIPS ALASKA INC
- DEVON ENERGY PRODUCTION CO LP
- ESCOPETA OIL CO LLC
- FOREST OIL COMPANY
- MARATHON OIL COMPANY
- PELICAN HILL OIL & GAS INC
- PIONEER NATURAL RESOURCES ALASKA
- PIONEER OIL COMPANY
- PRODIGY ALASKA LLC
- TRADING BAY OIL CO
- UNION OIL CO OF CALIFORNIA
- UNITS

Copyright 2004 Mapmakers Alaska

# Alaska Oil and Gas Conservation Commission (AOGCC)

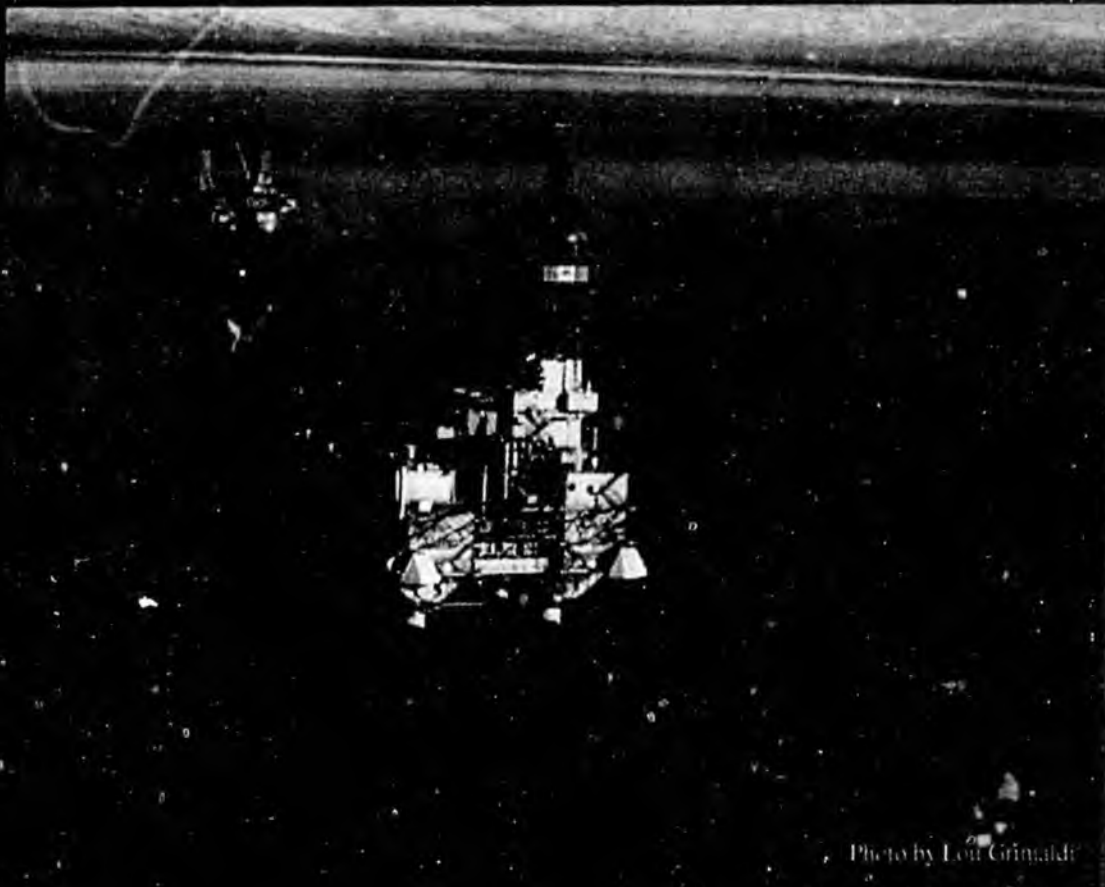


Photo by Lou Grimaldi



## Cook Inlet Oil and Gas Conservation

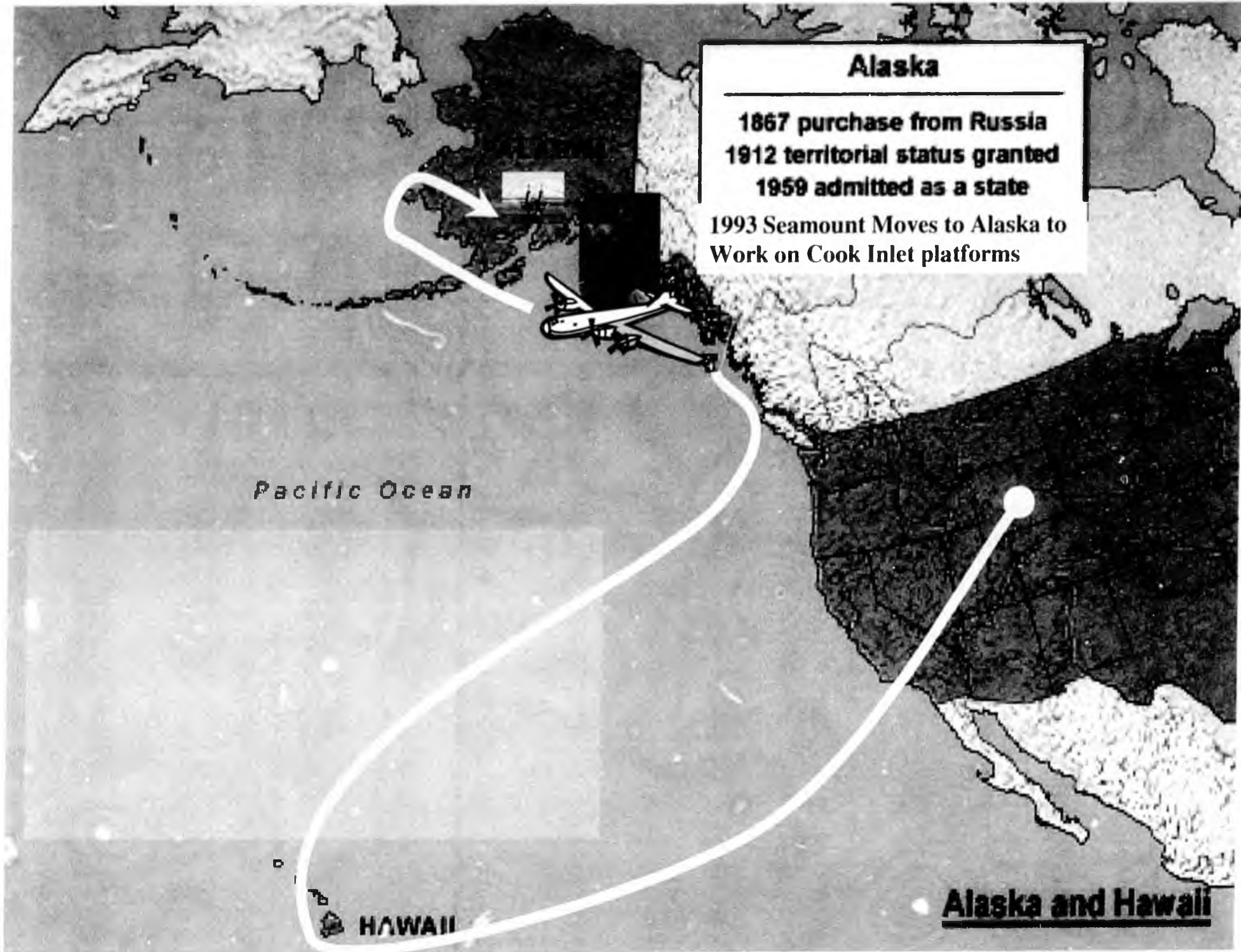
Presentation to Joint Senate & House  
Resources Committee

by

Dan Seamunt, AOGCC  
Commissioner

February 11, 2005

Presentation for Resources Committees, Kenai



**Alaska**

1867 purchase from Russia  
1912 territorial status granted  
1959 admitted as a state  
1993 Seamount Moves to Alaska to  
Work on Cook Inlet platforms

*Pacific Ocean*

**HAWAII**

**Alaska and Hawaii**

# **AOGCC and Future Cook Inlet**

**AOGCC Authority, Oversight, and  
Function**

**Cook Inlet Oil & Gas Investors**

**History of Offshore Cook Inlet Oil and  
Gas**

**Remaining Offshore Oil & Gas Resource**

**AOGCC Cook Inlet Wish List**

# Alaska Oil and Gas Conservation Commission (AOGCC)



## Mission

**Protect the public interest in oil and gas resources and protect underground supplies of drinking water.**

The Oil and Gas Conservation Act requires conducting all oil and gas drilling, production and measuring operations to prevent physical resource waste, to promote greater ultimate recovery and to afford all owners of oil and gas rights an equal opportunity to recover their fair share of the resource:

# Oversight

## Quasi-judicial State regulatory agency- Mainly Sub-surface

Prevent physical waste of hydrocarbon resources

- Oversight for underground operations
- Regulate drilling and production for oil & gas

Promote greater ultimate recovery

Protect fresh water

- Manage Class II UIC program

Protect correlative rights

- Jurisdiction over private and public lands
- Adjudicate disputes between resource owners



# Oversight Strategy

## Regulatory & Adjudicatory

Statewide Regulations

- 20 AAC 25

Drilling and Sundry

Permits

Orders

- Conservation,  
Injection, Aquifer  
Exemption

Public Hearings

Compliance Reviews

Field Studies

## Inspection

5 On-site Petroleum  
Inspectors

Well Control Equipment

- Drilling and  
Production

Metering

Well Integrity

Demonstrations

Visual Equipment

Checks

Incident Investigations

Other Inspections

# OIL AND GAS OPERATORS AND OWNERS COOK INLET/MAT-SU VALLEY

- Unocal Alaska
- Forest Oil Corp.
- Marathon Oil Company
- Phillips Alaska Inc./ConocoPhillips
- XTO Energy Inc.
- Anadarko
- CIRI
- Aurora Gas LLC
- Northstar Energy Group Inc.
- Pelican Hill Oil & Gas Inc.
- Alaska Crude Corporation
- Frontier Petroleum
- Prodigy Oil & Gas LLC
- Escopeta
- Pioneer of Illinois

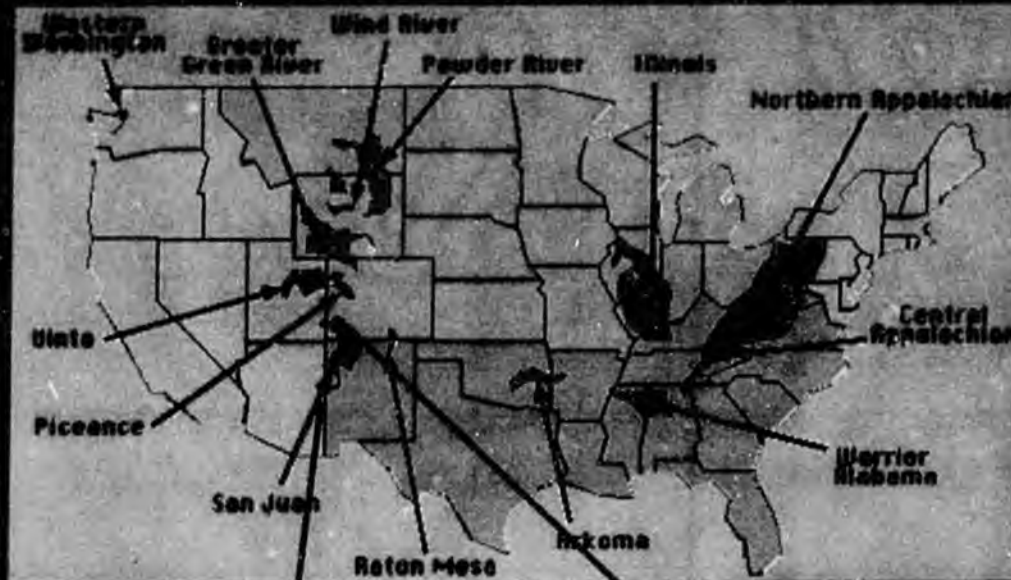


Grayling Platform

## **OTHER AREAS**

- Pioneer Natural Resources AK Inc.
- Andex Resources LLC
- Cassandra Energy Corp
- Rutter & Wilbanks-
- Delphi International

# Cook Inlet Exploration



## Exploration Immaturity

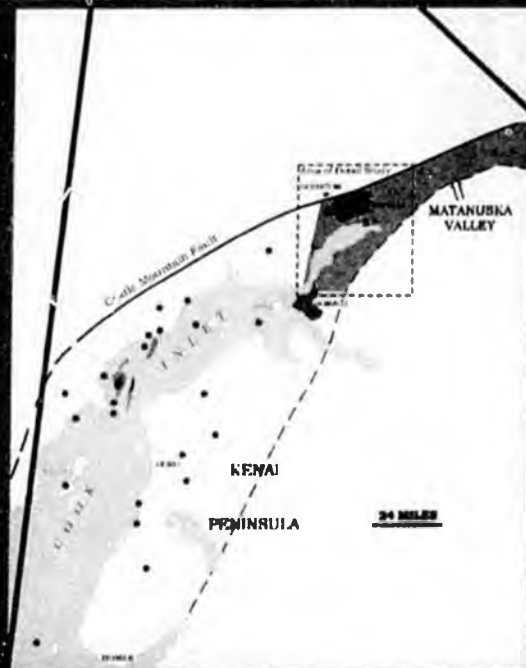
Similar in size to  
lower 48 Basins

14,000 sq mile Area  
same as San Juan Basin

385 Exploration  
Wells & 1000 Total  
Wells

vs

28,000+ Wells in  
San Juan



Presentation for Resources Committees, Kenai


**No 80's Drilling Boom**

# Cook Inlet Basin Oil & Gas History

- 1950s & 1960s
  - Exploration in the Cook Inlet Basin began in the mid-1950s
  - 286 exploratory wells drilled (one well per 30 square miles in Basin)
  - 1.3 BBO discovered in 9 fields
  - 7.7 TCF of non-associated gas discovered in 19 fields

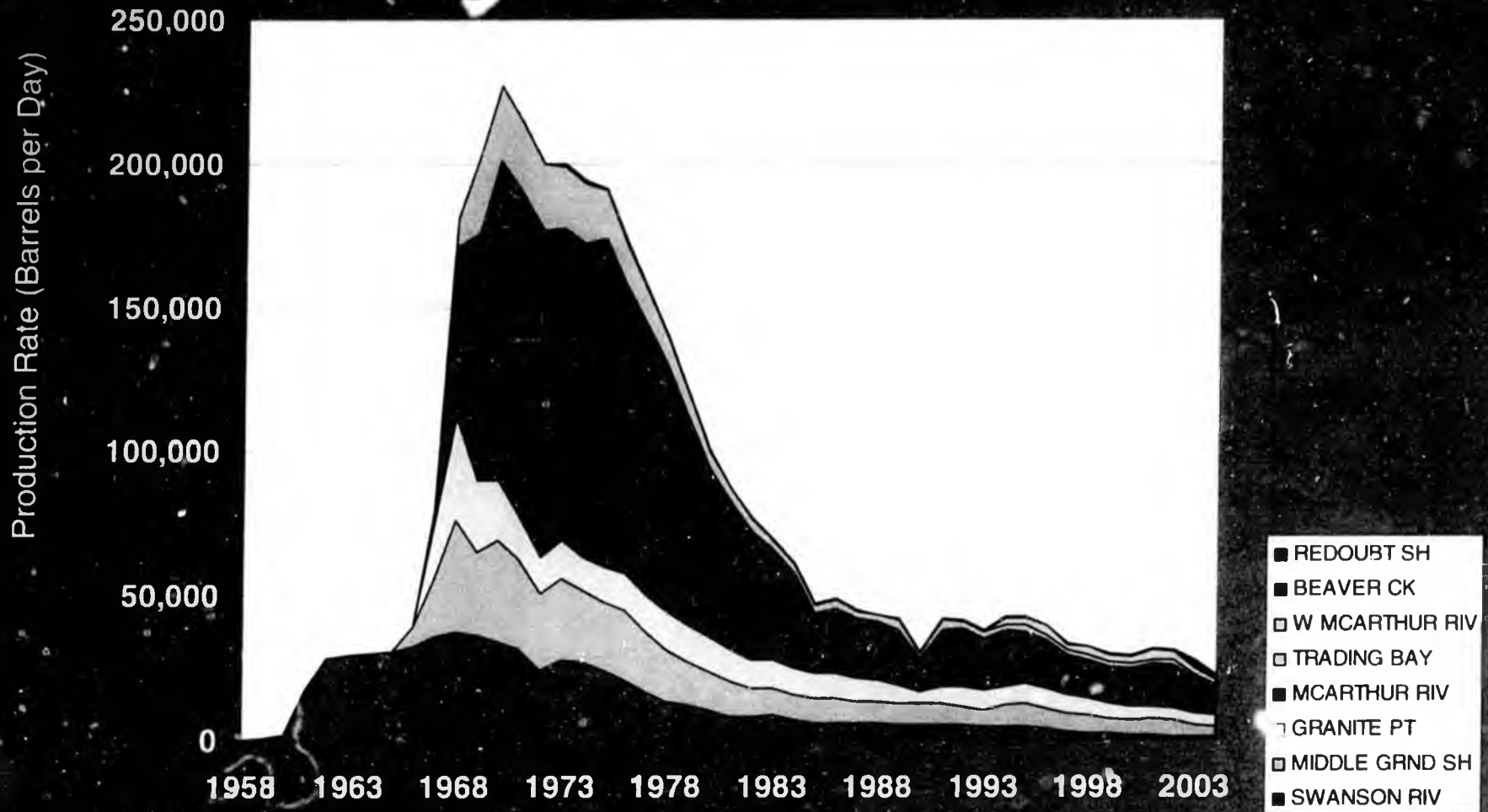
# Cook Inlet Basin History

- 1970s & 1980s
  - Exploitation of early discoveries
  - Limited exploration (**never saw 80's Boom**)
- 1990s to present
  - Unocal attempts rescue of five platforms and prolongs their lives.
  - Very limited offshore exploratory drilling
  - Incentive legislation
  - XTO saves two platforms from coma by re-interpreting existing data
  - Redoubt Shoal



Bill Miller - XTO

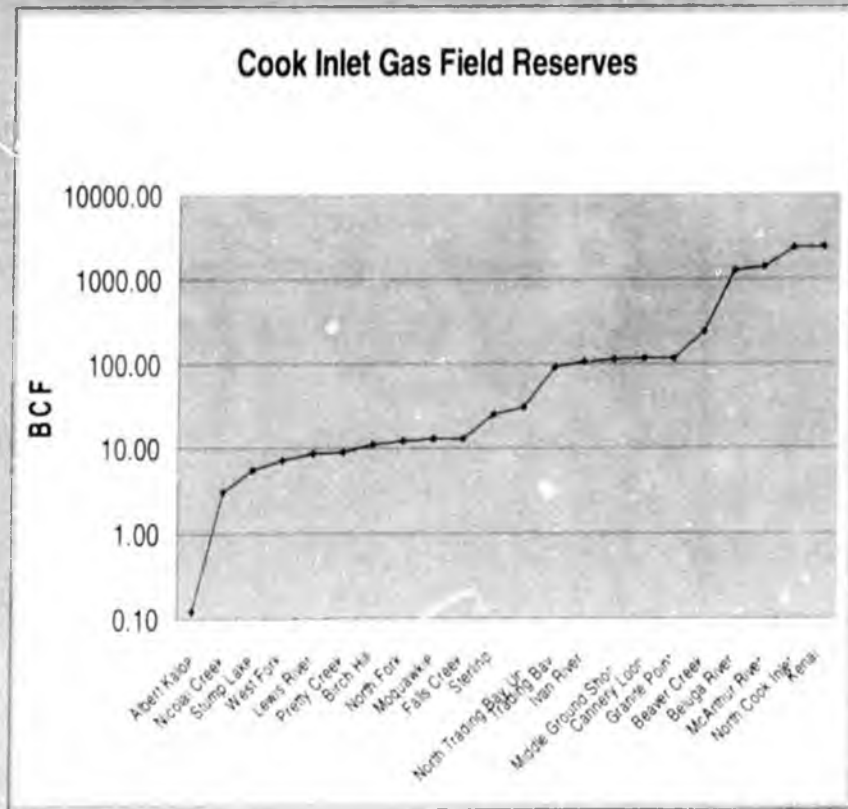
# COOK INLET DAILY OIL & NGL PRODUCTION RATE



Cook Inlet Cumulative Oil / NGL production — 3 Billion Barrels



# Cook Inlet Gas



Field	BCF Gas
Albert Kaloa	0.1
Nicolai Creek	3.1
Stump Lake	5.6
West Fork	7.2
Lewis River	8.8
Pretty Creek	9.0
Birch Hill	11.1
North Fork	12.1
Moquawkie	13.0
Falls Creek	13.0
Sterling	25.5
North Trading Bay Unit	30.3
Trading Bay	89.7
Ivan River	104.3
Middle Ground Shoal	111.9
Cannery Loop	115.7
Granite Point	116.0
Beaver Creek	241.7
Beluga River	1266.3
McArthur River	1384.2
North Cook Inlet	2327.9
Kenai	2425.1

Preparation for Resources Committee, Kenai

**Total**

**8321.60**

# AOGCC and Future Cook Inlet

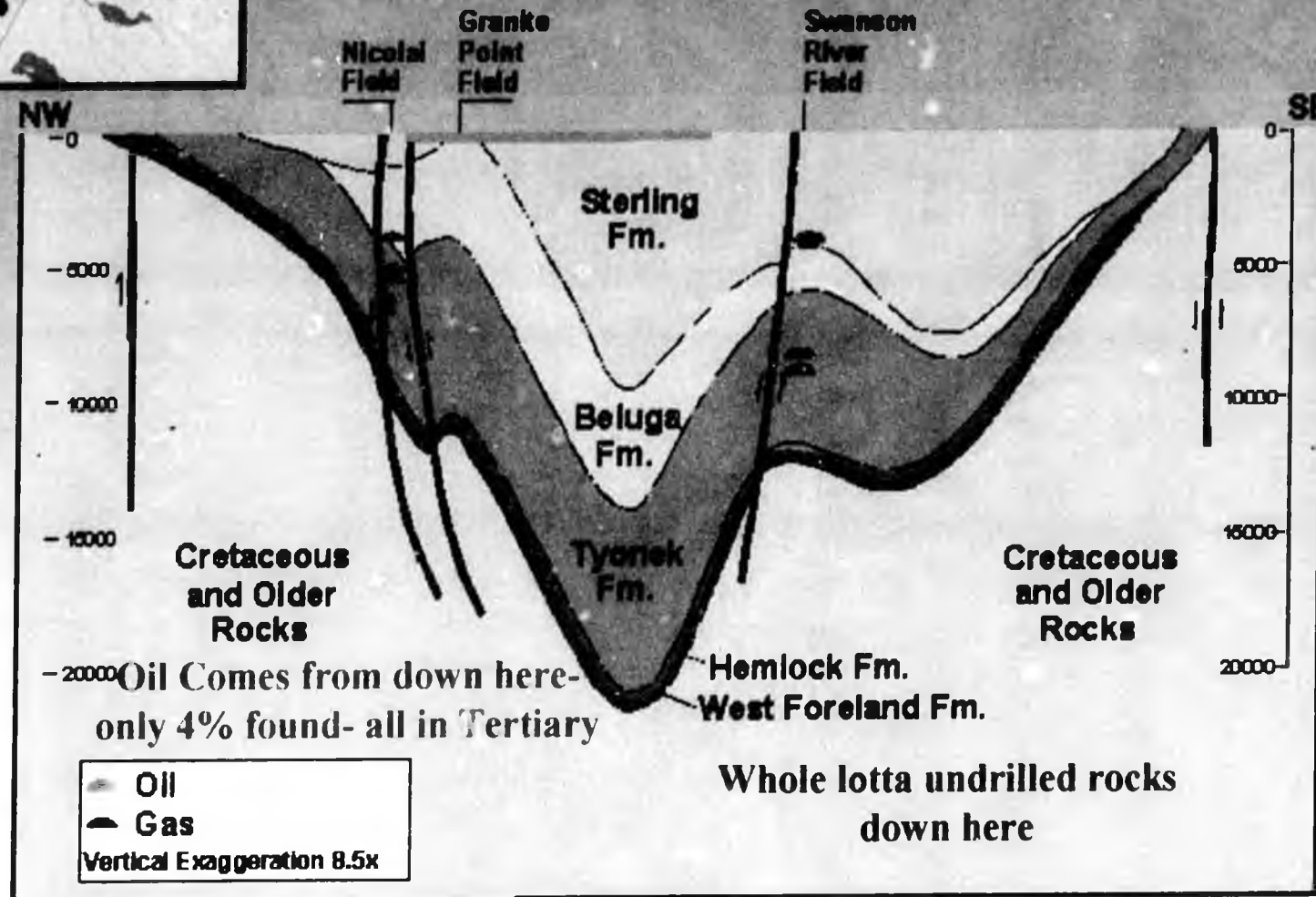
## Remaining Offshore Oil & Gas Resource

- Un-recovered oil in Known Pools- low risk with new technology/oil price
- Undeveloped Fault Blocks- mod risk/mod potential
- Pre-Tertiary- high risk/high potential
- Other Identified Prospects accessible from Platforms- see industry



# Cook Inlet Basin

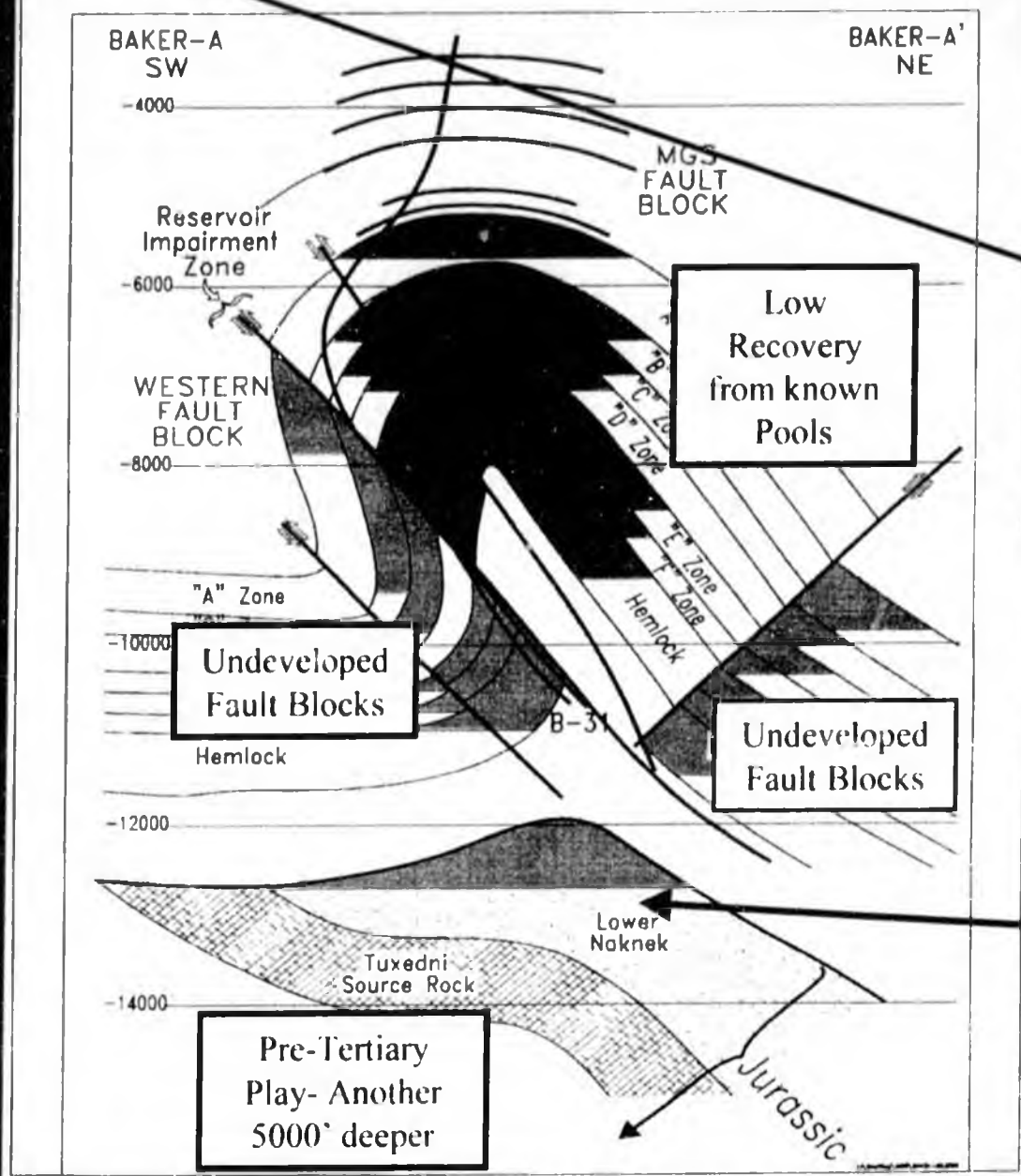
## Generalized Geologic Cross Section



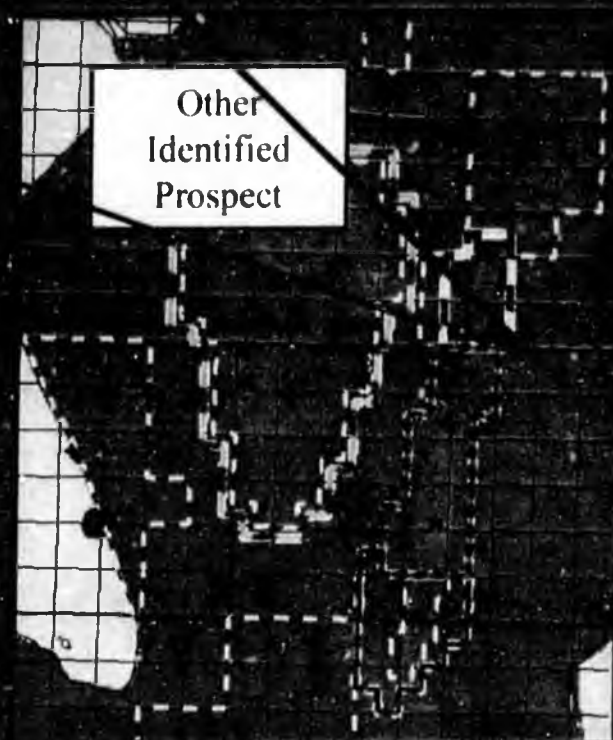
**Less than 55 wells have penetrated the entire tertiary section. Oil is generated deeper where no wells have boldly gone before.**

mep 98

# NORTH MIDDLE GROUND SHOAL



## Jurassic Closure at MGS Field

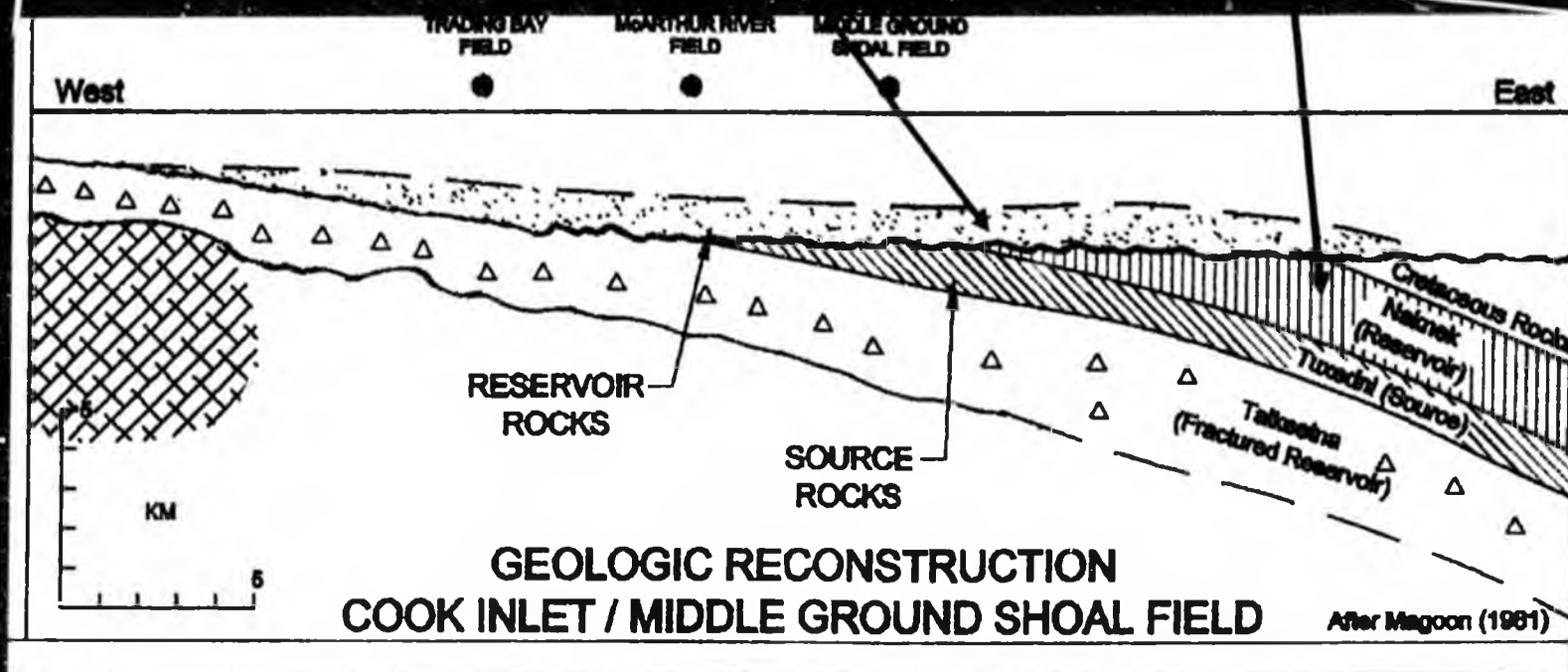


**Both porous Naknek and fractured Jurassic can be targeted where Naknek is present**

# Pre-Tertiary Subcrop Play *Upper Cook Inlet Basin*



Naknek is immediately  
above Tuxedni



# AOGCC Cook Inlet Offshore Reality

Majors had a 40 year run at the offshore  
Four of 16 platforms have been "light housed"  
Operators can't be forced to continue  
Much liability may exist for operators  
Many new potential investors have arrived.  
Much oil is left in the developed reservoirs  
Many exploration prospects exist within reach  
of the platforms  
High \$\$\$ Oil Price

# AOGCC Cook Inlet Offshore Wishlist

Look at Platforms as Assets/ don't destroy

Recover More Oil from Developed Reservoirs

- Sell to motivated low cost operator?
- State takes possession/ protection of former operators
- Tertiary oil recovery and/or stimulations?



Photo by Lou Gimaldi.

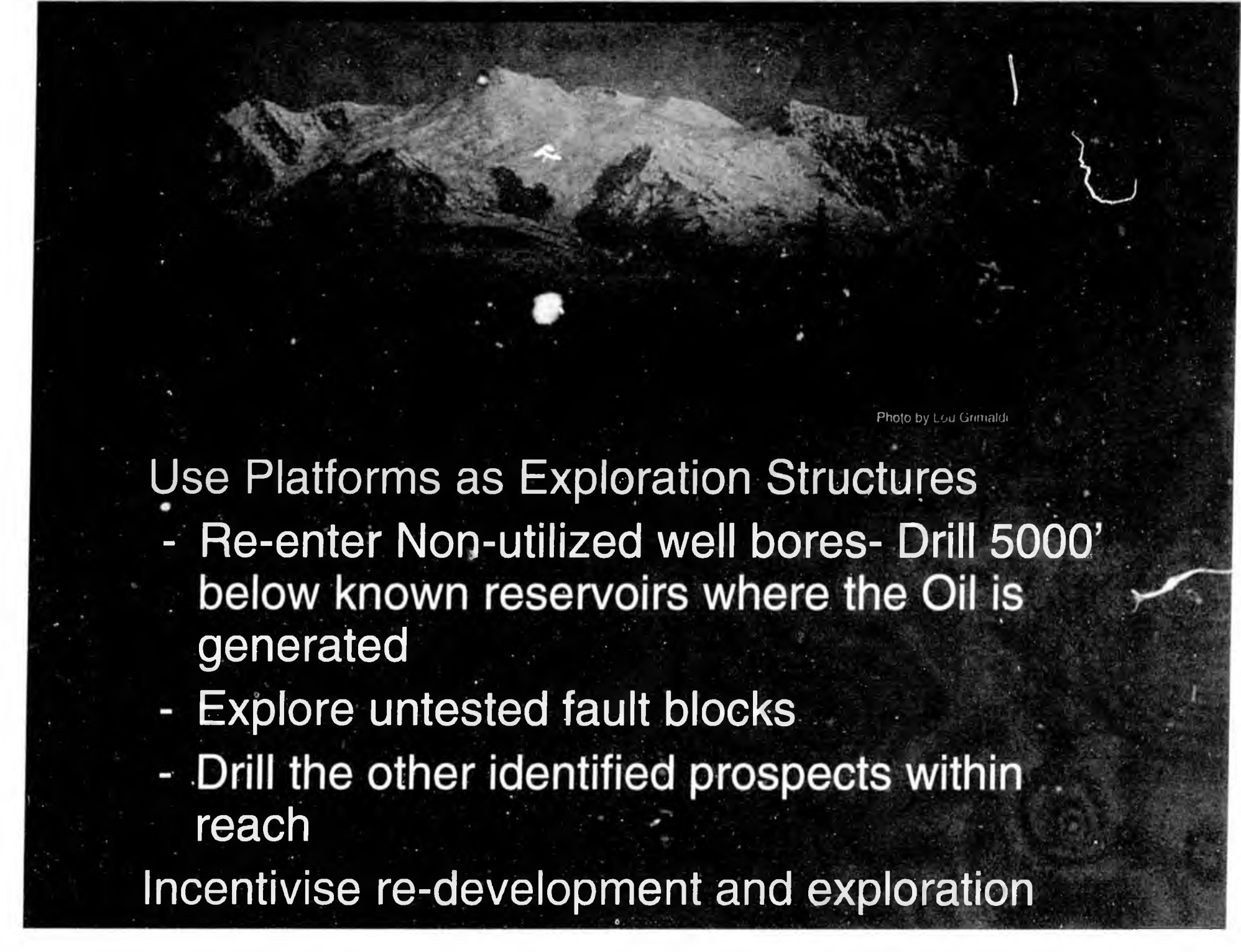
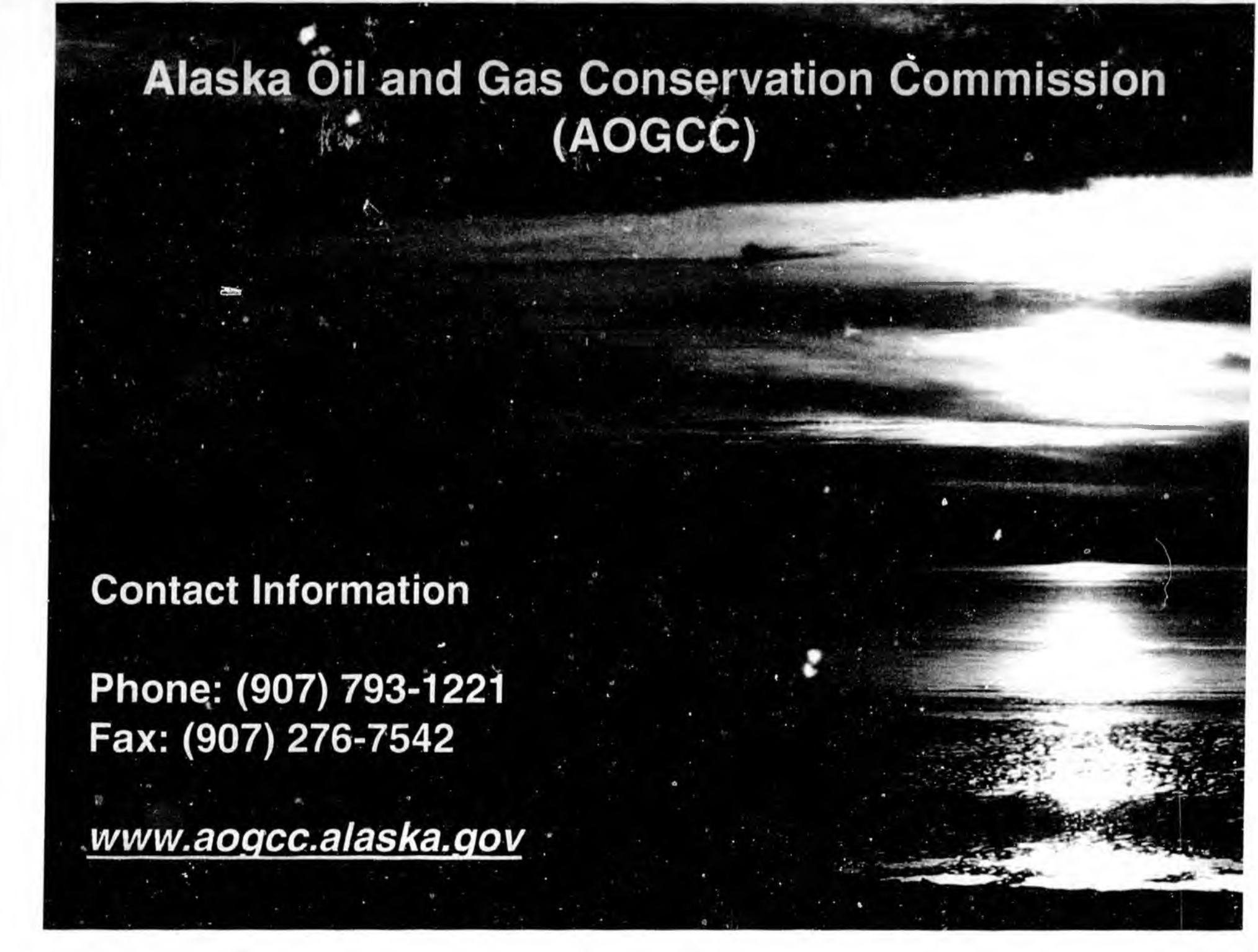


Photo by Lou Girmaldi

## Use Platforms as Exploration Structures

- Re-enter Non-utilized well bores- Drill 5000' below known reservoirs where the Oil is generated
- Explore untested fault blocks
- Drill the other identified prospects within reach

Incentivise re-development and exploration



# Alaska Oil and Gas Conservation Commission (AOGCC)

## Contact Information

Phone: (907) 793-1221

Fax: (907) 276-7542

[www.aogcc.alaska.gov](http://www.aogcc.alaska.gov)



Official Business

# ALASKA STATE LEGISLATURE

## SENATOR THOMAS H. WAGONER

- Co-Chair, Senate Transportation Committee
- Vice-Chair, Senate Resources Committee
- Vice-Chair, Community & Regional Affairs
- Member, Legislative Council

Session: January - May

State Capitol, #427

Juneau, AK 99801

Phone: 907-465-2828 Fax: 907-465-4779

Interim: May - December

145 Main Street Loop; Suite 226

Kenai, AK 99611

Phone: 907-283-7996 Fax 907-283-8127

February 2, 2005

Mike Stophlet, President & CEO  
ASRC Energy Services  
3900 C St., Suite 701  
Anchorage, AK 99503

Dear Mr. Stophlet;

In December, I sent a letter regarding a Joint Senate & House Resource Committee meeting on Friday, February 11, 2005, on the Kenai Peninsula, to receive input from businesses that are active in the Cook Inlet. I have not received a response from you and so am following up with this letter, in case the previous correspondence was inadvertently lost or misplaced.

Essentially, you would have 10 to 15-minutes to provide information to the committee and then there would be time for questions and answer following your presentation.

The intent is to provide you with a platform to speak directly to Legislators about matters you believe are necessary to work in Cook Inlet; issues like credits for deep drilling, capital reinvestment credits, exploration credits for jack up rigs, regulatory revisions, infrastructure needs, labor needs, and so forth.

If you wish to participate, please advise my office as soon as is possible; please contact my Resources Committee staff, Mary Jackson, at 465-4907 or fax me at 465-4779.

Thank you for your time and consideration.

Sincerely,

A handwritten signature in cursive script, appearing to read "Tom Wagoner".

Senator Tom Wagoner, Chair  
Senate Resources Committee

xc: Representative Ralph Samuels, Co-Chair House Resources, 24<sup>th</sup> Alaska Legislature  
Representative-Elect Jay Ramras, Co-Chair House Resources, 24<sup>th</sup> Alaska Legislature  
Kenai Peninsula Borough Mayor Dale Bagley



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145 Main Street Loop, Suite 226

Kenai, AK 99611

Phone: 907-283-7996 Fax 907-283-8127

February 2, 2005

James Udelhoven, CEO  
Udelhoven Oilfield System Services, Inc.  
184 E. 53rd Ave.  
Anchorage, AK 99518-1222

Dear Mr. Udelhoven;

In December, I sent a letter regarding a Joint Senate & House Resource Committee meeting on Friday, February 11, 2005, on the Kenai Peninsula, to receive input from businesses that are active in the Cook Inlet. I have not received a response from you and so am following up with this letter, in case the previous correspondence was inadvertently lost or misplaced.

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Senator Tom Wagoner, Chair  
Senate Resources Committee

cc: Representative Ralph Samuels, Co-Chair House Resources, 24<sup>th</sup> Alaska Legislature  
Representative-Elect Jay Ramras, Co-Chair House Resources, 24<sup>th</sup> Alaska Legislature  
Kenai Peninsula Borough Mayor Dale Bagley



Official Business

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Interim: May - December  
145 Main Street Loop; Suite 226  
Kenai, AK 99611  
hone: 907-283-7996 Fax 907-283-8127

February 2, 2005

Pete Leathard, President  
VECO Corporation  
3601 C Street, Suite 1000  
Anchorage, AK 99503

Dear Mr. Leathard:

In December, I sent a letter regarding a Joint Senate & House Resource Committee meeting on Friday, February 11, 2005, on the Kenai Peninsula, to receive input from businesses that are active in the Cook Inlet. I have not received a response from you and so am following up with this letter, in case the previous correspondence was inadvertently lost or misplaced.

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Kenai Peninsula Borough Mayor Dale Bagley



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February 2, 2005

Don Jones, CEO  
Pioneer Oil Company  
Highway 50 & Airport Road, RR 4 Box 142B  
Lawrenceville, IL 62439

Dear Mr. Jones:

In December, I sent a letter regarding a Joint Senate & House Resource Committee meeting on Friday, February 11, 2005, on the Kenai Peninsula, to receive input from businesses that are active in the Cook Inlet. I have not received a response from you and so am following up with this letter, in case the previous correspondence was inadvertently lost or misplaced.

Essentially, you would have 10 to 15-minutes to provide information to the committee and then there would be time for questions and answer following your presentation.

The intent is to provide you with a platform to speak directly to Legislators about matters you believe are necessary to work in Cook Inlet; issues like credits for deep drilling, capital reinvestment credits, exploration credits for jack up rigs, regulatory revisions, infrastructure needs, labor needs, and so forth.

If you wish to participate, please advise my office as soon as is possible; please contact my Resources Committee staff, Mary Jackson, at 465-4907 or fax me at 465-4779.

Thank you for your time and consideration.

Sincerely,

A handwritten signature in cursive script, appearing to read "Tom".

Senator Tom Wagoner, Chair  
Senate Resources Committee

xc: Representative Ralph Samuels, Co-Chair House Resources, 24<sup>th</sup> Alaska Legislature  
Representative-Elect Jay Ramras, Co-Chair House Resources, 24<sup>th</sup> Alaska Legislature  
Kenai Peninsula Borough Mayor Dale Bagley



Official Business

# ALASKA STATE LEGISLATURE

## SENATOR THOMAS H. WAGONER

- Co-Chair, Senate Transportation Committee
- Vice-Chair, Senate Resources Committee
- Vice-Chair, Community & Regional Affairs
- Member, Legislative Council

Session: January – May

State Capitol, #427

Juneau, AK 99801

Phone: 907-465-2828 Fax: 907-465-4779

Interim: May – December

145 Main Street Loop; Suite 226

Kenai, AK 99611

hone: 907-283-7996 Fax 907-283-8127

February 2, 2005

Allen Gross, President  
Pelican Hill Oil & Gas, Inc.  
1401 N. El Camino Road, Suite 207  
San Clemente, CA 92672

Dear Mr. Gross;

In December, I sent a letter regarding a Joint Senate & House Resource Committee meeting on Friday, February 11, 2005, on the Kenai Peninsula, to receive input from businesses that are active in the Cook Inlet. I have not received a response from you and so am following up with this letter, in case the previous correspondence was inadvertently lost or misplaced.

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Phone: 907-283-7996 Fax 907-283-8127

February 2, 2005

Danny Davis, President  
Escopeta Oil & Gas/SBI  
5005 Riverway #440  
Houston, TX 77056

Dear Mr. Davis:

In December, I sent a letter regarding a Joint Senate & House Resource Committee meeting on Friday, February 11, 2005, on the Kenai Peninsula, to receive input from businesses that are active in the Cook Inlet. I have not received a response from you and so am following up with this letter, in case the previous correspondence was inadvertently lost or misplaced.

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145 Main Street Loop; Suite 226  
Kenai, AK 99611  
Phone: 907-283-7996 Fax 907-283-8127

February 2, 2005

Rodney Cason, President  
Tesoro Alaska Company  
P.O. Box 3369  
Kenai, AK 99611

Dear Mr. Cason;

In December, I sent a letter regarding a Joint Senate & House Resource Committee meeting on Friday, February 11, 2005, on the Kenai Peninsula, to receive input from businesses that are active in the Cook Inlet. I have not received a response from you and so am following up with this letter, in case the previous correspondence was inadvertently lost or misplaced.

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Phone: 907-283-7996 Fax 907-283-8127

February 2, 2005

Shawn Bartholomae, President & CEO  
Prodigy Oil & Gas, LLC  
433 E. Las Colinas Blvd., Suite 800  
Irving, TX 75039

Dear Mr. Bartholomae;

In December, I sent a letter regarding a Joint Senate & House Resource Committee meeting on Friday, February 11, 2005, on the Kenai Peninsula, to receive input from businesses that are active in the Cook Inlet. I have not received a response from you and so am following up with this letter, in case the previous correspondence was inadvertently lost or misplaced.

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Thank you for your time and consideration.

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Senator Tom Wagoner, Chair  
Senate Resources Committee

cc: Representative Ralph Samuels, Co-Chair House Resources, 24<sup>th</sup> Alaska Legislature  
Representative-Elect Jay Ramras, Co-Chair House Resources, 24<sup>th</sup> Alaska Legislature  
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145 Main Street Loop; Suite 226

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Phone: 907-283-7996 Fax 907-283-8127

February 2, 2005

Margie Brown, President & CEO

CIRI

P.O. Box 93330

Anchorage, AK 99509-3330

Dear Ms. Brown:

In December, I sent a letter regarding a Joint Senate & House Resource Committee meeting on Friday, February 11, 2005, on the Kenai Peninsula, to receive input from businesses that are active in the Cook Inlet. I have not received a response from you and so am following up with this letter, in case the previous correspondence was inadvertently lost or misplaced.

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February 2, 2005

Bill Boycott, Manager, Kenai Nitrogen Operations  
Agrium  
P.O. Box 575  
Kenai, AK 99611-0575

Dear Mr. Boycott:

Thank you for agreeing to speak to the Joint Senate & House Resource Committee meeting on Friday, February 11, 2005.

To reiterate my original request, I am asking for a 10 to 15-minute presentation by each party, followed by questions from committee members. The presentation should focus on matters you believe are necessary to work in Cook Inlet; issues like credits for deep drilling, capital reinvestment credits, exploration credits for jack up rigs, regulatory revisions, infrastructure needs, labor needs, and so forth.

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Thank you for agreeing to participate and I look forward to your presentation.

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Senate Resources Committee

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Kenai Peninsula Borough Mayor Dale Bagley



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Kenai, AK 99611  
Phone: 907-283-7996 Fax 907-283-8127

February 2, 2005

Scott Pfoff, President  
Aurora  
10333 Richmond Ave., Suite 710  
Houston, TX 77042

Dear Mr. Pfoff:

Thank you for agreeing to speak to the Joint Senate & House Resource Committee meeting on Friday, February 11, 2005.

To reiterate my original request, I am asking for a 10 to 15-minute presentation by each party, followed by questions from committee members. The presentation should focus on matters you believe are necessary to work in Cook Inlet; issues like credits for deep drilling, capital reinvestment credits, exploration credits for jack up rigs, regulatory revisions, infrastructure needs, labor needs, and so forth.

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Kenai, AK 99611

Phone: 907-283-7996 Fax 907-283-8127

February 2, 2005

Charles Pierce, Vice President  
Unocal Alaska  
P.O. Box 196247  
Anchorage, AK 99519-6247

Dear Mr. Pierce:

Thank you for agreeing to speak to the Joint Senate & House Resource Committee meeting on Friday, February 11, 2005.

To reiterate my original request, I am asking for a 10 to 15-minute presentation by each party, followed by questions from committee members. The presentation should focus on matters you believe are necessary to work in Cook Inlet; issues like credits for deep drilling, capital reinvestment credits, exploration credits for jack up rigs, regulatory revisions, infrastructure needs, labor needs, and so forth.

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Kenai, AK 99611

Phone: 907-283-7996 Fax 907-283-8127

February 2, 2005

John Barnes, Alaska Business Unit Manager  
Marathon Oil Company  
Box 196168  
Anchorage, AK 99519-6168

Dear Mr. Barnes:

Thank you for agreeing to speak to the Joint Senate & House Resource Committee meeting on Friday, February 11, 2005.

To reiterate my original request, I am asking for a 10 to 15-minute presentation by each party, followed by questions from committee members. The presentation should focus on matters you believe are necessary to work in Cook Inlet; issues like credits for deep drilling, capital reinvestment credits, exploration credits for jack up rigs, regulatory revisions, infrastructure needs, labor needs, and so forth.

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Phone: 907-283-7996 Fax 907-283-8127

February 2, 2005

James Bowles, President  
ConocoPhillips Alaska, Inc.  
PO Box 100360  
Anchorage, AK 99510-0360

Dear Mr. Bowles;

Thank you for agreeing to speak to the Joint Senate & House Resource Committee meeting on Friday, February 11, 2005.

To reiterate my original request, I am asking for a 10 to 15-minute presentation by each party, followed by questions from committee members. The presentation should focus on matters you believe are necessary to work in Cook Inlet; issues like credits for deep drilling, capital reinvestment credits, exploration credits for jack up rigs, regulatory revisions, infrastructure needs, labor needs, and so forth.

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Kenai Peninsula Borough Mayor Dale Bagley

# ALASKA LEGISLATURE - ONLINE TELECONFERENCE ORDER FORM

Note: All Fields Must Be Completed

Sponsor and/or Committee Name:

Date of Teleconference:

Start Time:  End Time:

Chairing Site:  Juneau Room:

- |            |  |                       |  |
|------------|--|-----------------------|--|
| Testimony: | <input type="radio"/> Yes                        | Testimony Time Limit: | <input type="radio"/> 1 min                    |
|            | <input type="radio"/> No                         |                       | <input type="radio"/> 2 min                    |
|            | <input checked="" type="radio"/> Invitation Only |                       | <input type="radio"/> 3 min                    |
|            | <input type="radio"/> N/A                        |                       | <input type="radio"/> 5 min                    |
|            |  |                       | <input checked="" type="radio"/> no time limit |
|            |  |                       | <input type="radio"/> other - see instructions |

Contact Person

Telephone Number

- |                                     |   |             |                                      |                 |
|-------------------------------------|---|-------------|--------------------------------------|-----------------|
| LIO sites:                          | <input checked="" type="checkbox"/> Anchorage | Other sites | <input checked="" type="radio"/> Yes | Offnet Name (s) |
|                                     | <input type="checkbox"/> Barrow               | may add?    | <input type="radio"/> No             |                 |
|                                     | <input type="checkbox"/> Bethel               |             |                                      |                 |
|                                     | <input type="checkbox"/> Cordova              |             |                                      |                 |
|                                     | <input type="checkbox"/> Delta Junction       |             |                                      |                 |
|                                     | <input type="checkbox"/> Dillingham           |             |                                      |                 |
|                                     | <input type="checkbox"/> Fairbanks            |             |                                      |                 |
|                                     | <input type="checkbox"/> Glennallen           |             |                                      |                 |
|                                     | <input type="checkbox"/> Homer                |             |                                      |                 |
|                                     | <input type="checkbox"/> Juneau               |             |                                      |                 |
|                                     | <input type="checkbox"/> Kenai                |             |                                      |                 |
|                                     | <input type="checkbox"/> Ketchikan            |             |                                      |                 |
|                                     | <input type="checkbox"/> Kodiak               |             |                                      |                 |
|                                     | <input type="checkbox"/> Kotzebue             |             |                                      |                 |
|                                     | <input type="checkbox"/> Matsu                |             |                                      |                 |
| <input type="checkbox"/> Nome       |   |             |                                      |                 |
| <input type="checkbox"/> Petersburg |   |             |                                      |                 |
| <input type="checkbox"/> Seward     |   |             |                                      |                 |
| <input type="checkbox"/> Sitka      |   |             |                                      |                 |
| <input type="checkbox"/> Tok        |   |             |                                      |                 |
| <input type="checkbox"/> Valdez     |   |             |                                      |                 |
| <input type="checkbox"/> Wrangell   |   |             |                                      |                 |

i expect there will be some offnets but probably as a listen only.

No LIOs

**Subject of meeting and/or Bills on Agenda**

Presentation by Cook Inlet Industry Representatives

The meeting will consist of multiple presentations to the Joint Committee by industries working in the Cook Inlet.

Agrium

# Kenai Nitrogen Operations

July 2004



Summary of

## Alaskan Direct Economic Impacts

*"By Alaska economic standards, the Agrium operation is exceptional for its combination of high pay levels, amount and concentration of expenditures in the local area, and the degree of value added manufacturing that occurs in Alaska prior to export. The result is a high multiplier impact."*

- McDowell Group, October 2002

A recent study completed by the McDowell Group in April 2004 identified the following direct impacts of Agrium's Kenai Nitrogen Operations:

- ✓ Agrium spent \$101 million in Alaska in 2003
- ✓ \$77 million in purchases of goods and services from 384 Alaskan businesses
- ✓ \$22.0 million in direct payroll; including benefits, expenditures are \$29.5 million
- ✓ \$2.2 million in taxes and lease payments
- ✓ \$195,000 in charitable donations to 43 non-profit organizations and groups

Summary of

## Alaskan Indirect Economic Benefits

*For every one thousand cubic feet of Cook Inlet natural gas used by Agrium for feedstock and power generation, \$9.35 in total economic output is generated.*

- ✓ Agrium employees have 244 school age dependents or about 2.5 percent of the Central Peninsula student enrollment
- ✓ Agrium's total direct, indirect, and induced payroll impacts support 7.0 percent of the total Kenai Peninsula payroll
- ✓ Agrium total direct, indirect, and induced employment accounts for 4.0 percent of the total employment on the Kenai Peninsula

## Did You Know?

- ✓ Agrium is the Kenai Peninsula's fourth largest private employer with an average employment of 230 people
- ✓ Agrium accounts for an additional 420 jobs in Alaska and the Kenai Peninsula Borough
- ✓ Agrium direct expenditures on the Kenai amounted to \$65 million in 2003 on goods and services provided by 320 Kenai Peninsula companies
- ✓ Agrium donations to local school and youth activities accounted for 54% of the company's charitable donations
- ✓ Agrium's Kenai Nitrogen Operations is the second largest nitrogen production complex in the U.S.A.
- ✓ Agrium's Kenai Nitrogen Operations accounts for about 6 percent of North America's nitrogen production
- ✓ In 2003, Agrium's Kenai Nitrogen Operations exported 1.2 million tons of ammonia and urea valued at \$200 million
- ✓ Agrium's Kenai Nitrogen Operations is one of Alaska's few value added industries

# Agrium

# kenai

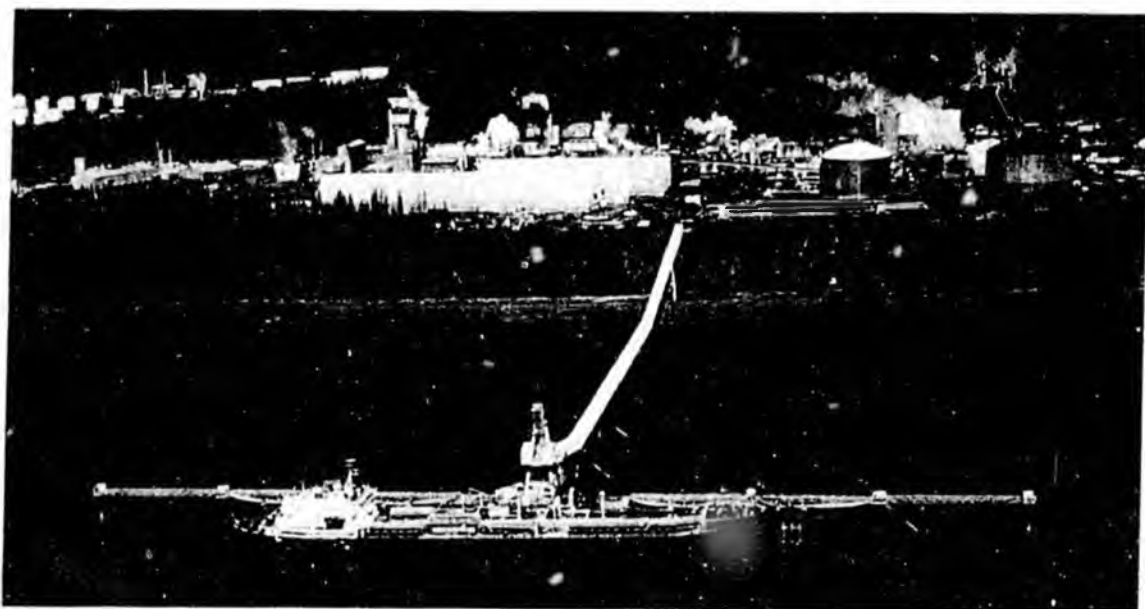
nitrogen

Agrium Inc. produces more than 11 million tons (10 million tonnes) of fertilizers annually. Nitrogen fertilizer products account for some 8.2 million tons (7.5 million tonnes) of that total. Potash fertilizers account for 1.7 million tons (1.5 million tonnes) and phosphate fertilizers for 1.1 million tons (1 million tonnes).

Agrium is also one of the largest agricultural retailers in the United States, supplying products and related services to growers in 24 states under the retail banners of Crop Production Services and Western Farm Service. We are also a leading fertilizer retailer in Argentina, with outlets operating under the trade name Agroservicios Pampeanos.

Agrium's commitment to the communities where we operate is actively demonstrated through open and honest communications, responsible environmental stewardship, putting safety first and by investing in a bright tomorrow.

From our  
facilities in  
North and  
South America,  
more than 5,000  
Agrium employees  
supply growers  
around the world  
with fertilizers  
to sustain the  
production of  
nutritious and  
safe food for  
millions of  
people.



# K

# Agrium

## Fertilizer Products

It is estimated that 50 percent of the food production in North America is the direct result of nitrogen-based fertilization. Nitrogen is the plant nutrient most commonly deficient in western agriculture. The ammonia and urea fertilizers produced at Kenai Nitrogen Operations play a major role in promoting high yields of nutritious food crops. Without them, not only would food prices rise, but food quality would also diminish.



*Anhydrous  
Ammonia*



*Urea*

○ Hydrogen

○ Nitrogen

○ Carbon

○ Oxygen

Ammonia and urea are found in nature. Without them, life as we know it would not be possible. Ammonia is a vital part of every living cell, and urea is a natural byproduct of the breakdown of protein in the digestive system.

In terms of their nutrient content, the nitrogen fertilizer products produced at Kenai Nitrogen Operations are identical to 'organic' fertilizers. The source of plant nutrients is irrelevant to the yield or quality of the fruit, grain or vegetable matter produced by the plant.

Anhydrous ammonia is a liquid fertilizer, manufactured by combining nitrogen gases from the atmosphere with hydrogen derived from natural gas and water. The natural gas reacts with superheated steam (between 1300°F (700°C) and 1400°F (760°C)) in the presence of a catalyst to separate hydrogen, from the natural gas, reacts with nitrogen from the atmosphere to form anhydrous ammonia. The word "anhydrous" simply means "without water."

Urea is a solid fertilizer, made by reacting carbon dioxide and ammonia under extreme pressure at 375°F (190°C). The resulting molten mixture is then processed into small, white, crystalline spheres, called prills or granules. Urea is the major fertilizer traded in international commerce, accounting for approximately 50 percent of the nitrogen fertilizer traded around the world.

Ammonia and urea are also used in many other applications including cattle feed, paper, synthetic fibers, resins, refrigeration, waste treatment, rocket propellants, household cleaners, even medicines.

# kenai

nitrogen

## Environmental Stewardship

**W**e are continually working to reduce the environmental impact of our operations. Complying with state and federal environmental regulations is just a beginning. Environmental considerations are a part of all our business decisions.

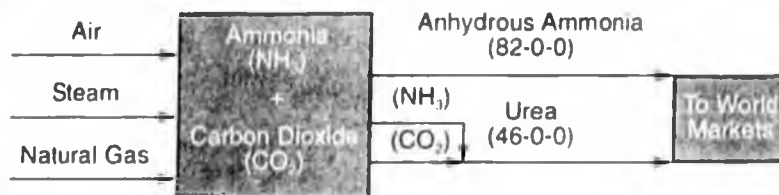
Our environmental protection begins with the safety of our employees. Everyone benefits from having a safe workplace, which comes from careful attention to safe operating procedures, emergency preparedness and preventative maintenance. These practices reduce the potential for plant upsets which could impact the environment.

Since 1996 we have reduced hazardous waste generation at the plant by 99 percent. We accomplished this by replacing a process solution that produced a hazardous byproduct with one that generates no waste, and by replacing solvent and caustic dip tanks with part washers that use hot water and soap.

We have an aggressive pollution prevention plan, and continually look for opportunities to reduce waste volume and toxicity. Our waste minimization efforts have received praise from the Alaska Department of Environmental Conservation and have been recognized by Alaska's Green Star Program.

We continually implement efficiency improvements to reduce atmospheric emissions and burn less fossil fuel. In spring, 2001, the start-up of an electric cogeneration facility eliminated more than 500 tons (455 tonnes) per year of nitrogen oxide emissions.

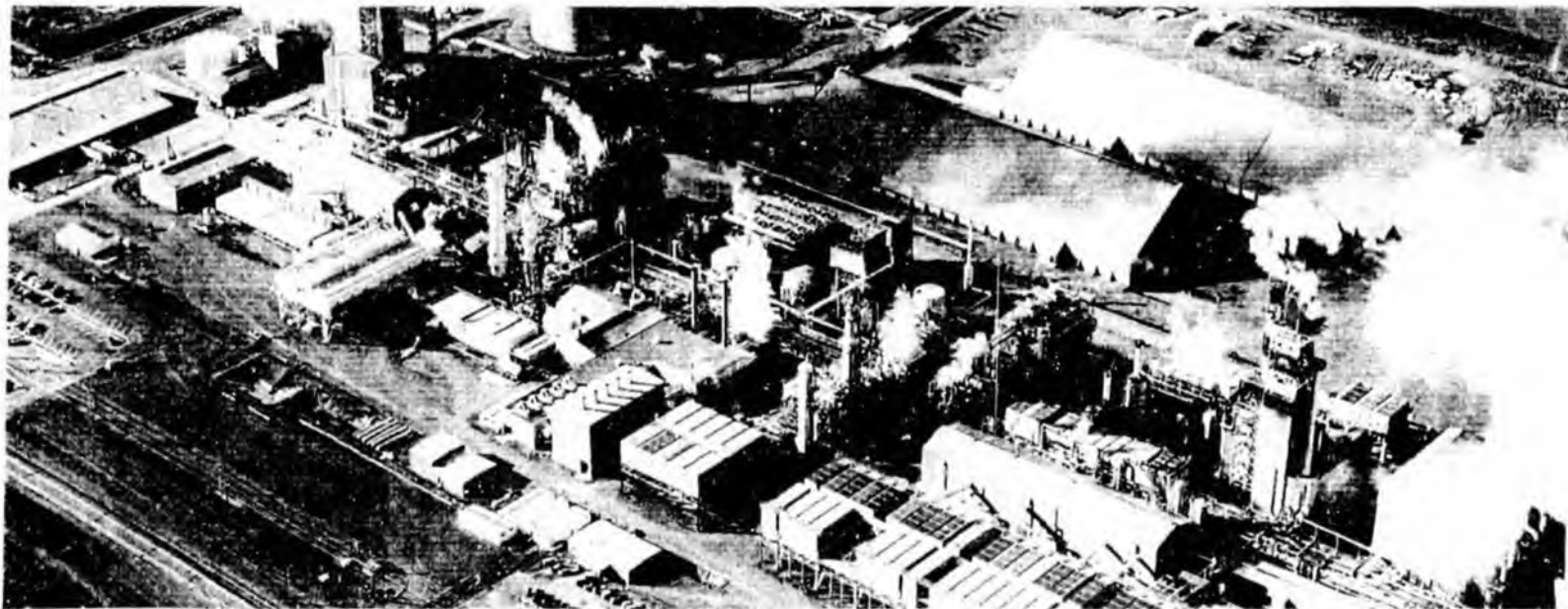
## Raw Materials and Products



## Best Management Practices

**T**o ensure that our customers always receive safe, competitively-priced products, Agrum is committed to best management practices in the production, distribution and use of everything we make. For the grower, getting the best value for every dollar spent on crop production is more important today than ever before.

The proper use of Agrum anhydrous ammonia and urea fits well into Best Management Practices. The fertilizers produced at the Kenai plant are an effective aid in helping growers achieve maximum efficiency while minimizing environmental impact.



### Impact on Local Economy

The Kenai Operation provides employment for more than 230 full time employees who earn approximately \$20 million in wages and benefits. In 2001, Agrium spent \$95 million to buy local goods and services from 250 Alaskan businesses and paid \$2.5 million in taxes and lease payments.

### Caring for the Kenai

We also are proud to sponsor the nationally acclaimed Caring for the Kenai environmental awareness contest that annually challenges local high school students to answer the question: "What can I do, create, invent or improve to better care for the environment of the Kenai Peninsula?" The program has not only raised the level of environmental awareness on the Kenai, but has also generated many practical ideas that have improved our environment.

In April, 2001, President George W. Bush honored Kenai Peninsula youth by presenting a President's Environmental Youth Award to three young people who had participated in our "Caring for the Kenai" environmental awareness program. In return, the students gave the President a "Caring for the Kenai" jacket.



### Partners in the Community

Agrium employees live and work on the Kenai Peninsula and they are deeply involved in activities that enrich the lives of all its citizens. They coach hockey, soccer, football, basketball and Little League baseball. Many serve in leadership roles in organizations such as Boys and Girls Clubs, 4-H, Girl Scouts and Boy Scouts. Others participate as teachers at the Kenai Peninsula College, advisors in the Junior Achievement program, first aid instructors and Sunday school teachers.

Kenai Nitrogen Operations is a strong supporter of the United Way, with employee donations matched dollar for dollar by the Company. And we are active volunteers on business and professional organizations as well as government boards and commissions. In 2001, Agrium donated \$140,000 to 87 non-profit organizations and groups.

# Agrium

Kenai  
Nitrogen Operations

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PUBLISHED 1201  
PRINTED IN CANADA

# Agrium

# kenai

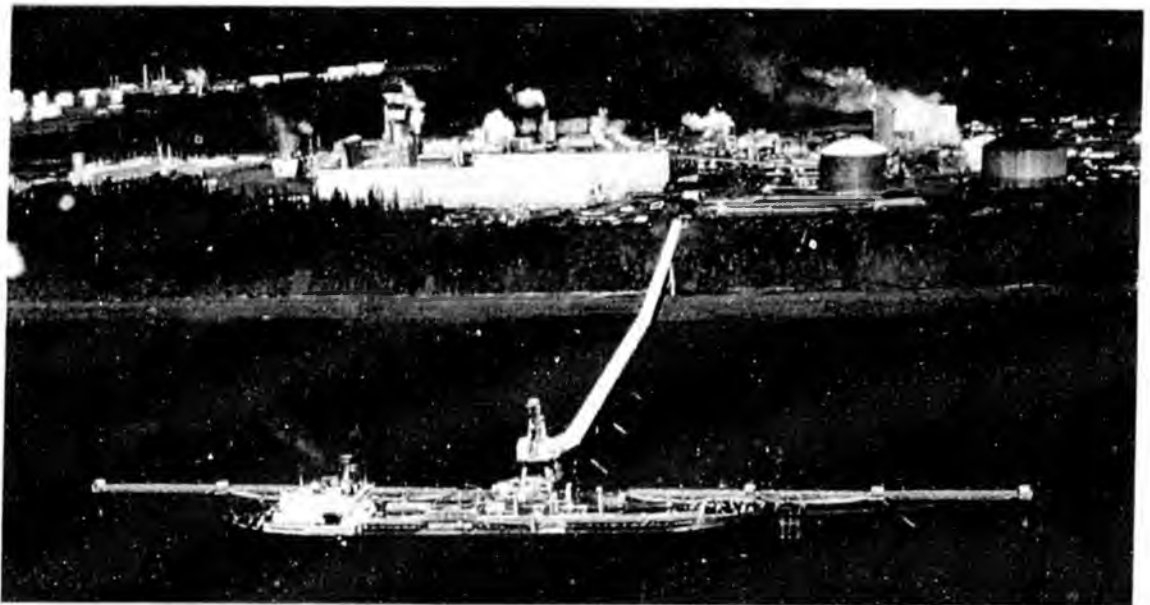
nitrogen operations

**A**grium Inc. produces more than 11 million tons (10 million tonnes) of fertilizers annually. Nitrogen fertilizer products account for some 8.2 million tons (7.5 million tonnes) of that total. Potash fertilizers account for 1.7 million tons (1.5 million tonnes) and phosphate fertilizers for 1.1 million tons (1 million tonnes).

Agrium is also one of the largest agricultural retailers in the United States, supplying products and related services to growers in 24 states under the retail banners of Crop Production Services and Western Farm Service. We are also a leading fertilizer retailer in Argentina, with outlets operating under the trade name Agroservicios Pampeanos.

Agrium's commitment to the communities where we operate is actively demonstrated through open and honest communications, responsible environmental stewardship, putting safety first and by investing in a bright tomorrow.

From our  
facilities in  
North and  
South America,  
more than 5,000  
Agrium employees  
supply growers  
around the world  
with fertilizers  
to sustain the  
production of  
nutritious and  
safe food for  
millions of  
people.



# K

## Fertilizer Products

It is estimated that 50 percent of the food production in North America is the direct result of nitrogen-based fertilization. Nitrogen is the plant nutrient most commonly deficient in western agriculture. The ammonia and urea fertilizers produced at Kenai Nitrogen Operations play a major role in promoting high yields of nutritious food crops. Without them, not only would food prices rise, but food quality would also diminish.



Anhydrous Ammonia

Urea

- Hydrogen
- Nitrogen
- Carbon
- Oxygen

Ammonia and urea are found in nature. Without them, life as we know it would not be possible. Ammonia is a vital part of every living cell, and urea is a natural byproduct of the breakdown of protein in the digestive system.

In terms of their nutrient content, the nitrogen fertilizer products produced at Kenai Nitrogen Operations are identical to 'organic' fertilizers. The source of plant nutrients is irrelevant to the yield or quality of the fruit, grain or vegetable matter produced by the plant.

Anhydrous ammonia is a liquid fertilizer, manufactured by combining nitrogen gases from the atmosphere with hydrogen derived from natural gas and water. The natural gas reacts with superheated steam (between 1300°F (700°C) and 1400°F (760°C)) in the presence of a catalyst to separate hydrogen, from the natural gas, reacts with nitrogen from the atmosphere to form anhydrous ammonia. The word "anhydrous" simply means "without water."

Urea is a solid fertilizer, made by reacting carbon dioxide and ammonia under extreme pressure at 375°F (190°C). The resulting molten mixture is then processed into small, white, crystalline spheres, called prills or granules. Urea is the major fertilizer traded in international commerce, accounting for approximately 50 percent of the nitrogen fertilizer traded around the world.

Ammonia and urea are also used in many other applications including cattle feed, paper, synthetic fibers, resins, refrigeration, waste treatment, rocket propellants, household cleaners, even medicines.

## Environmental Stewardship

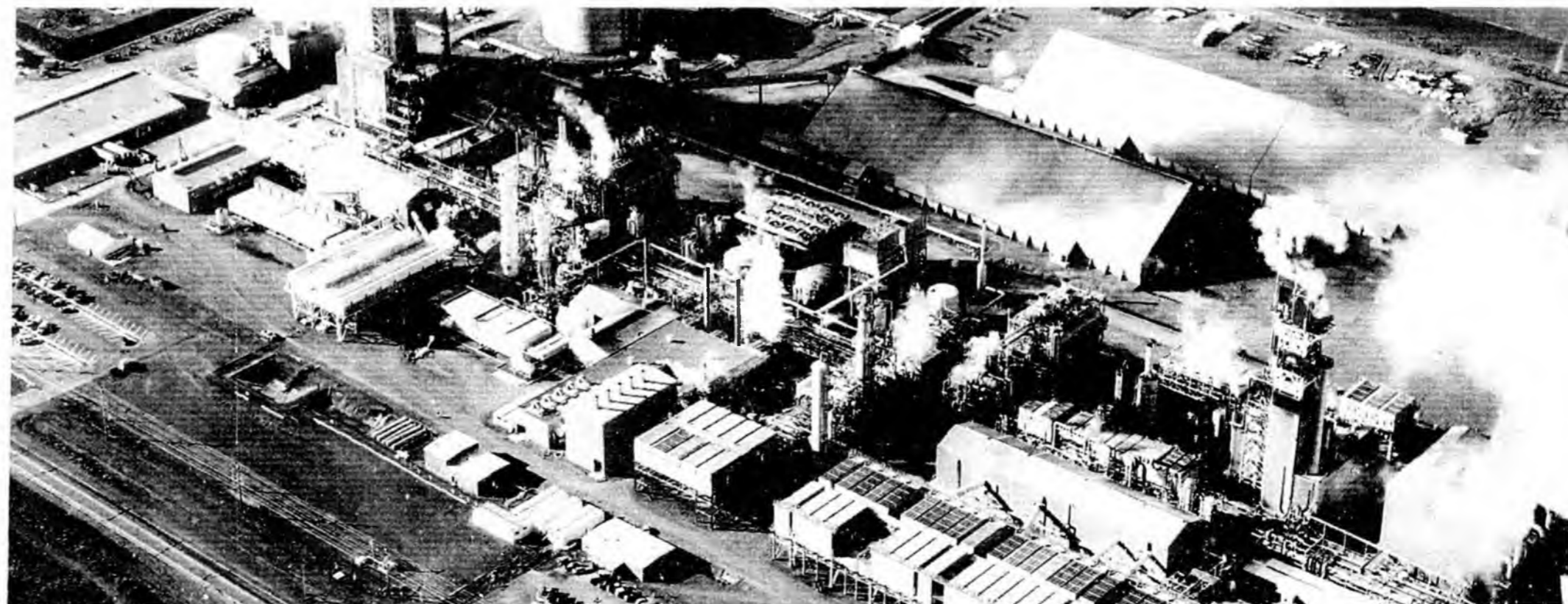
**W**e are continually working to reduce the environmental impact of our operations. Complying with state and federal environmental regulations is just a beginning. Environmental considerations are a part of all our business decisions.

Our environmental protection begins with the safety of our employees. Everyone benefits from having a safe workplace, which comes from careful attention to safe operating procedures, emergency preparedness and preventative maintenance. These practices reduce the potential for plant upsets which could impact the environment.

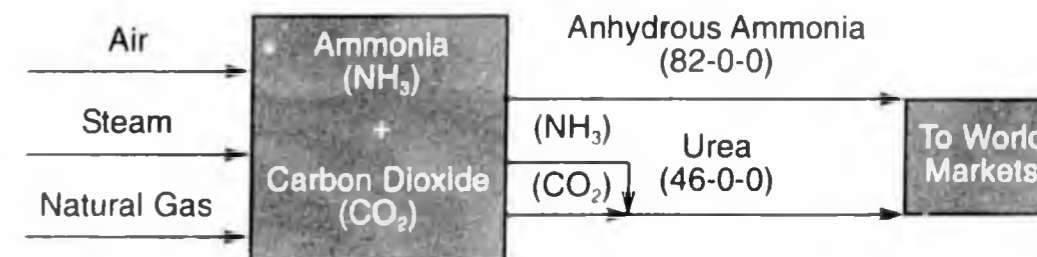
Since 1996 we have reduced hazardous waste generation at the plant by 99 percent. We accomplished this by replacing a process solution that produced a hazardous byproduct with one that generates no waste, and by replacing solvent and caustic dip tanks with part washers that use hot water and soap.

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# kenai

nitrogen operations

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*More than seven years in the fertilizer business have taught us how to compete and stay ahead of the competition.*

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***The Economic Impact of  
Closing Agrium Kenai  
Nitrogen Operations***

***PREPARED FOR:  
Agrium U.S. Inc.***

***PREPARED BY:***



***Anchorage • Juneau***

***April 2004***

## TABLE OF CONTENTS

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<b>Executive Summary .....</b>	<b>1</b>
Summary of Role in the Economy .....	1
Economic Impacts of Agrium Closure .....	3
<b>Scope of Work and Methodology.....</b>	<b>6</b>
Scope of Work .....	6
Methodology .....	6
<b>Overview of Agrium U.S. Activities.....</b>	<b>8</b>
Background on Agrium Kenai Nitrogen Operations .....	8
<b>Agrium Direct Economic Impacts .....</b>	<b>9</b>
Direct Employment and Payroll .....	9
Taxes.....	11
Charitable Contributions and Membership Organizations .....	12
Summary of Direct Spending .....	13
<b>Indirect and Induced Impacts.....</b>	<b>14</b>
Indirect and Induced Output Impacts .....	15
Indirect and Induced Employment and Earning Impacts .....	15
Socioeconomic Impacts .....	15
<b>Plant Closure Impacts.....</b>	<b>17</b>
Case Studies .....	17
Kenai Peninsula Borough Impacts from Agrium Plant Closure .....	19
Statewide Impacts of Agrium Plant Closure .....	21

## EXECUTIVE SUMMARY

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Agrium U.S. Inc. contracted with McDowell Group, an Alaska research-based consulting firm, to quantify the economic impact of closing down Agrium Kenai Nitrogen Operations on the Kenai Peninsula Borough and the Alaska economy. This report details the study findings of the economic role of Agrium's production on the Kenai Peninsula and Alaska, and then assesses the impact if this production stopped and the plant closed.

Agrium Kenai Nitrogen Operations is one of Alaska's few major manufacturing operations and contributes significantly to Alaska's economy by adding value to Cook Inlet natural gas production. The Agrium complex is located near Nikiski on the Kenai Peninsula, 10 miles north of Kenai. In 2003, Agrium reported an average annual employment of 264. With a June 2003 downsizing, the plant's current employment is 230. The plant is the United States' second largest producer of ammonia and urea. It consists of two urea and two ammonia plants, a tidewater port facility, and a power cogeneration facility. In 2003, the Kenai plants produced 1.6 million metric tons of anhydrous ammonia and urea. The plant operated at 75 percent capacity, using approximately 110 million cubic feet of Cook Inlet natural gas daily (or 40 billion cubic feet annually). At capacity, the plant could use as much as 155 million cubic feet daily (or 53 billion cubic feet annually) of Cook Inlet natural gas. Virtually all of Agrium's Kenai production is destined for overseas markets. Agrium's total gross sales in 2003 were \$220 million.

### Summary of Role in the Economy

#### Economic Output

- Total economic output in Alaska related to Agrium operations was \$374 million in 2003. Economic output is the gross sale of Agrium's production plus the impacts of company and employee spending in support of Agrium's operations.
- For every one thousand cubic feet (Mcf) of Cook Inlet natural gas used by Agrium for feedstock and power generation, over \$9 in total Alaska economic output is generated.
- In 2003, Agrium spent \$77 million on goods and services provided by almost 400 Alaska companies. Purchases were made from gas producers, construction contractors, engineering firms, environmental service firms, utility companies, retail and wholesale businesses, and other types of businesses.

#### Employment and Payroll

- Total Alaska impacts include 685 Alaska jobs (2003 average of 264 direct plus 421 indirect and induced jobs) and \$42 million in payroll (\$22 million in direct wages plus \$20 million in indirect and induced payroll).

- Agrium provides year-round, high-paying skilled manufacturing jobs.
- The Agrium operation also accounts - directly and indirectly - for an estimated 2 percent of the population, 4 percent of employment, and 7 percent of wage and salary income in the Kenai Peninsula Borough.
- Agrium's work force is virtually 100 percent resident in the Kenai Peninsula area. This fact, in turn, directs household spending locally, as opposed to other income sectors that have significant non-resident components. According to the Alaska Department of Labor and Workforce Development, in 2002, non-residents held 21 percent of the private sector jobs in the Kenai Peninsula Borough.

### Community Involvement

- In 2003, Agrium contributed \$195,000 to 43 non-profit organizations or programs, most of them located in the Kenai area. Seven other organizations received in-kind support.
- Charitable giving was provided to local schools' athletic and academic programs, youth activities, community services and civic organizations, environmental programs, senior services, and other health and economic development programs.
- Agrium participated in 17 membership organizations, including industry and business support organizations.

### Government Revenues

- The Kenai Peninsula Borough receives \$2 million in industrial property tax from Agrium, an estimated minimum of \$0.2 million in residential property tax from Agrium's employees' dwellings, and \$1 million in state funding support for Agrium family school-age children's education - a total of \$3 million in direct revenue.

**Table 1**  
**Summary of Statewide Agrium Kenai Nitrogen Operations**  
**Economic Impacts, 2003**

	Direct Impacts	Multiplier Effect	Indirect and Induced Impacts	Total Impacts
<b>Economic Impacts</b>				
Output	\$220 million	1.7	\$154 million	\$374 million
Economic value of Agrium production per MCF of natural gas feedstock				\$9.35/Mcf
Employment	264 jobs	2.6	421 jobs	685 jobs
Payroll	\$22 million	1.9	\$20 million	\$42 million
AK goods & services purchased	\$77 million			

*(Table continues next page)*

**Table 2**  
**Summary of Agrium's Economic Impacts on the**  
**Kenai Peninsula Borough, 2003**

	Direct Impacts	Multiplier Effect	Indirect and Induced Impacts	Total Impacts
<b>Kenai Peninsula Borough Employment and Payroll</b>				
KPB Employment	264 jobs	2.2	317 jobs	580 jobs
Employment (% of KPB 2002 total)				3%
Payroll	\$22 million	1.6	\$13 million	\$35 million
Wage and salary income (% of KPB 2002 total)				6%
<b>Revenue to Kenai Peninsula Borough (KPB)</b>				
Agrium industrial property tax	\$2.2 million			
Agrium employee property tax	\$0.2 million			
State revenue to KPB School District for Agrium dependents	\$1.1 million			
Total revenue to KPB	\$3.5 million			
<b>Social Impacts</b>				
Total population impacts (direct and indirect)				1,250 total 2.4% of KPB
Student enrollment (Agrium children as % of total KPB District enrollment)	2.5%			
Number of charities supported	50			

## **Economic Impacts of Agrium Closure**

### **Alaska's Plant Closure Case Studies**

Based on profiles of two Alaska communities - Ketchikan and Wrangell - that have lost important manufacturing facilities, a community in Alaska experiencing a similar loss can expect some or all of the following:

- Immediate loss of some of the community's highest paying, year-round jobs.
- Some immediate population loss, but also gradual, long-term population decline.
- Declining average wages as manufacturing jobs are not replaced in the local economy or are replaced by lower paying service sector jobs.
- Declining business sales and sales tax revenues.
- Declining property tax base that results in declining tax revenues.

- Increased tax burden on residents and businesses that remain and/or cuts in local government services.
- Economic consequences much greater than just the direct jobs lost with the closure if there is no growth elsewhere in the economy.

### **Kenai Peninsula Borough Impacts from Agrium's Closure**

The Borough would experience both direct and indirect impacts on its economy. Based on current employment figures, estimates of direct impacts include:

- Immediate loss of 230 jobs and \$19 million in annual payroll.
- Borough-wide employment dropping by 1.3 percent and payroll by 3.2 percent.
- Average monthly wage for the Borough dropping by 1.9 percent.
- Immediate loss of \$2 million in property tax revenues, representing 5 percent of the Borough's total property tax revenues.
- 43 non-profit organizations losing \$195,000 in contributions, perhaps more when including contributions made directly by Agrium employees.
- Immediate loss of \$77 million in business sales.

Using multipliers for the Kenai Peninsula Borough (employment and payroll multipliers of 2.2 and 1.6 respectively), estimates of indirect impacts on the Borough include the potential loss of about 280 support sector jobs and \$11 million in annual support sector payroll.

### **Statewide Impacts from Agrium's Closure**

Based on current employment figures (230 employees) and statewide multipliers, Agrium's closure could result in a loss of a total 600 jobs and \$36 million in payroll statewide. Agrium's closure could also affect the Alaska economy in the following ways:

- Natural gas production in Cook Inlet would be deferred by an estimated 40 billion cubic feet per year. This deferred production would result in immediate loss of state revenue from Cook Inlet gas royalty and severance taxes. It is estimated this loss of state revenue would be \$11.6 million.
- Alaska's exports would immediately drop by 7 percent, a value of \$200 million.
- Alaska's manufacturing base would suffer from a significant loss in high-paying, year-round, resident jobs. Loss of these jobs would continue a trend that has important long-term implications, including the out-migration of young people who cannot find viable employment.