

IMPACT OF OCS DEVELOPMENT ON THE ALASKA ECONOMY

Prepared Written Testimony
Oliver Scott Goldsmith
Professor of Economics
Institute of Social and Economic Research
University of Alaska Anchorage

US House of Representatives Committee on Energy and Commerce
Subcommittee on Energy and Power
April 13, 2011
Washington DC.

I have been a professor of economics at the University of Alaska for 35 years and recently co-authored a study of the economic effects on the state of Alaska from development of the oil and gas resources from the Outer Continental Shelf (OCS) off the North Slope of Alaska. Funding for the study was provided by Shell Exploration and Production. I am testifying on my own behalf and not as a representative of the University of Alaska Anchorage or Shell.

In 2006 the Department of Interior Minerals Management Service (now BOEMRE—Bureau of Ocean Energy Management Regulation and Enforcement) estimated that the undiscovered, economically recoverable oil in the Beaufort and Chukchi Seas was 12.5 billion barrels (assuming an oil price of \$60), more than the initial estimate of recoverable oil from Alaska's Prudhoe Bay field—the largest ever discovered in North America. The economically recoverable natural gas was estimated to be 50 trillion cubic feet.

Industry interest in the Alaska OCS is reflected in the three recent lease sales. Two sales in the Beaufort Sea in 2005 and 2007 generated \$367 million in bonuses and 1.1 million acres

leased. The Chukchi lease sale in 2008 generated \$2.3 billion in high bids and 2.8 million acres leased.

Development of these resources could result in production of more than 1 million barrels of oil per day for more than a generation. This could reduce foreign imports, currently 10 million barrels per day, by 10 percent and improve our balance of trade by \$36 billion a year (at \$100 per barrel cost of imported crude).

Of course there are many technical, economic, logistical, environmental, and other challenges to achieving that production goal, and under the best of conditions it would take nearly a decade to reach first production. At the time our study was done, we projected that production could begin by 2018. Today first production is still at least 10 years away, in 2021.

Petroleum has been the most important economic driver for the Alaska economy since it became a state in 1959. The economy today would be half as big without petroleum and hard pressed to support a basic level of services for its citizens. Without petroleum about 60 percent of all jobs would be dependent on the federal government.

16 billion barrels of oil has been produced from state lands on the North Slope over the last 35 years, but the largest fields—Prudhoe Bay and Kuparuk--have been in decline for 20 years. Development of nearby smaller fields, hard to reach reservoirs, and unconventional reserves face economic challenges and all projections are for a continued decline in onshore production. Because of this the state economy faces an uncertain future. Providing industry access to petroleum reserves on federal lands, onshore as well as those in the OCS, offers the best path to continued economic prosperity for the state.

OCS development could add an annual average of 35 thousand jobs to the Alaska economy over the next 50 years, offsetting the likely job loss from the continued decline of

production on state lands. These would be high paying year round jobs with a combined payroll of \$75 billion (2010 \$). These jobs and the sales of Alaska businesses providing support activities to the petroleum industry could be the foundation for a sustainable economy for the state for a more than a generation.

Under current law the federal government retains essentially all the public revenues from lease bonuses, rents, and royalties from the Alaska OCS. We estimate state revenues of \$17 billion spread over 50 years (assuming oil at \$100 per barrel). Local governments directly impacted by development would receive \$3.5 billion over that same period. These revenues would be small compared to current state spending, but large compared to the communities on the North Slope.

Alaska OCS development could also generate annual average employment of 28.5 thousand in the rest of the US and substantial revenues for the federal and other state governments. At an oil price of \$100, federal revenues from royalties, the corporate income tax, and the personal income tax could be \$226 billion (2010 \$) over the next 50 years. State income and sales taxes outside Alaska could be \$7 billion.

Moving forward with the Alaska OCS would enhance the potential for further development of Alaska's other petroleum resources.

Alaska OCS development would enhance the viability of a gas pipeline to supply Alaska natural gas to the lower 48 market because it would increase the amount of gas available to a pipeline and drive down the unit cost of transportation through that pipeline.

OCS oil flowing through the Trans Alaska pipeline would keep the cost of transportation low, enhancing the economic viability of smaller onshore reserves. It would extend the useful life of the pipeline that some suggest is in danger of shutting down from technical challenges

associated with low throughput. It would increase the options for development of unconventional petroleum reserves like heavy oil that need to be mixed with light oil to flow easily through a pipeline.

Delays in development put these opportunities at risk.

Because of petroleum, the Alaska economy has remained relatively strong through the recent recession. But oil production today is only 1/3 the level of 20 years ago and continuing to fall at 6 percent each year. Looking forward, Alaskans are asking what will sustain the economy for the next generation and understandably concerned. Moving forward with OCS development would be a strong positive signal that opportunities exist for a strong economic future for the state and its citizens.

ATTACHMENTS

Oliver Scott Goldsmith Resume

Economic Analysis of Future Offshore Oil and Gas Development: Beaufort Sea, Chukchi Sea, and North Aleutian Basin, Prepared for Shell Exploration and Production, March 2009, by Northern Economics and the Institute of Social and Economic Research, University of Alaska Anchorage.

Potential National-Level Benefits of Alaska OCS Development, Prepared for Shell Exploration and Production, February 2011, by Northern Economics and the Institute of Social and Economic Research, University of Alaska Anchorage.

“*What Drives the Alaska Economy?*” UA Research Summary No. 13, by (Oliver) Scott Goldsmith, Institute of Social and Economic Research, University of Alaska Anchorage, 2008.

“*Oil Pumps Alaskan’s Economy to Twice its Size—But What’s Ahead?*” UA Research Summary No 17, by (Oliver) Scott Goldsmith, Institute of Social and Economic Research, University of Alaska Anchorage, 2011.