

# Chapter Eleven: Summary and Director's Final Finding

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# Chapter Eleven: Summary and Director's Final Finding

## A. Summary

DO&G is required by AS 38.05.035(e) and (g), to determine whether an oil and gas lease sale serves the state's best interests. It is the responsibility of the director of DO&G to make that determination for the Cook Inlet Areawide Oil and Gas Lease Sale. In making this decision, the reasonably foreseeable positive and negative effects were balanced to determine whether the potential benefits exceed the potential negative effects and whether holding this sale is in the best interests of the state.

In this final finding analysis, DO&G considered the reasonably foreseeable potential effects, both negative and positive, that this sale could have on fish, wildlife, and human users of these resources, on the local economy and well-being of Alaskans, and on state revenue. DO&G analyzed the available socioeconomic, environmental, geological and geophysical data, and information submitted by state and federal agencies. The discussion throughout this final finding reflects the analysis of these issues. Below is a summary of this analysis.

### 1. Reasonably Foreseeable Cumulative Effects of Leasing and Subsequent Activity

Potential post-lease activities that could have cumulative effects on the area's habitats, and fish and wildlife populations and their uses include seismic surveys, construction of support facilities, and drilling and production activities. Some potential effects of these activities include physical disturbances that could alter the landscape, lakes, rivers, and wetlands; habitat changes; behavior changes of fish, wildlife and birds; drawdowns and contamination of groundwater; and contamination of terrestrial or freshwater habitats from discharges from well drilling and production, gas blowouts, or oil spills.

Oil and gas exploration, development, and production activities may produce emissions that have the potential to affect air quality, including carbon monoxide (CO), nitrogen oxides (NO<sub>x</sub>), sulfur dioxide (SO<sub>2</sub>), particulate matter-10 (PM<sub>10</sub>), PM<sub>2.5</sub>, volatile organic compounds (VOC), ozone, and greenhouse gases including carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), and nitrous oxide (N<sub>2</sub>O).

Oil and gas related activities could result in increased access to hunting and fishing areas due to construction of new roads, but this could also increase competition between user groups for fish and wildlife resources. Interference with commercial fishing operations is a potential effect. A major oil spill could harm fisheries through direct lethal or sub-lethal effects to fish stocks, and could decrease resource availability and accessibility for users.

### 2. Mitigation Measures and Other Regulatory Protections

Although oil and gas activities subsequent to leasing could potentially affect habitats, fish and wildlife and their uses, subsistence, air quality, and commercial fishing, measures proposed in this final best interest finding, along with regulations imposed by other state, federal, and local agencies, are expected to avoid, minimize, and mitigate those potential effects.

Mitigation measures address habitat loss avoidance and protection; prohibitions and restrictions on surface entry into legislatively designated areas and other important habitat areas; disturbance avoidance; and free passage of fish and wildlife. Mitigation measures protect trumpeter swan nesting areas, bald eagles, and Steller's eiders. Sets of comprehensive measures protect the Kenai Lowlands caribou herd, brown bears and their habitat, and beluga whales. Measures to protect fish and wildlife

uses address harvest interference avoidance, public access, and road construction. Other measures and regulations protect drinking water and clean air, and address seismic activities, design and construction of pipelines, discharges and waste from drilling and production, oil spill prevention and control, and site rehabilitation.

### **3. Fiscal Effects and Effects on Municipalities and Communities**

Alaska's economy depends heavily on revenues related to petroleum development, which totaled \$4.57 billion in fiscal year 2007. The petroleum industry is Alaska's largest industry, annually spending \$2.1 billion, including \$422 million on payroll and \$1.7 billion on goods and services. Overall, this spending generates 33,600 jobs, \$1.4 billion in payroll, and value added to the Alaska economy of \$1.8 billion for total output of \$3.1 billion. Oil and gas accounts for 12 percent of private sector jobs and 20 percent of private sector payroll. The oil and gas industry has the highest monthly wage in Alaska, averaging \$7,754, which is 2.8 times higher than the statewide average of \$2,798.

In the Matanuska-Susitna Borough, it is estimated that over 350 residents are employed by the oil and gas industry with an average monthly wage of \$8,382. The economic impact of the oil and gas industry in the Matanuska-Susitna Borough was an additional 2,105 jobs for Matanuska-Susitna residents, with a payroll of \$84 million. The induced impacts were 1,558 jobs and \$38 million in payroll. Total economic impact was estimated to be 4,016 jobs and \$158 million for the Matanuska-Susitna Borough.

In Anchorage, it is estimated that about 2,400 workers are employed by the oil and gas industry. Estimated total payroll is over \$239 million with an additional \$845 million in goods and services in the Anchorage economy. Indirect impact of the oil and gas industry is estimated to be 11,600 jobs and \$431 million in payroll, with an induced impact of 2,320 jobs and \$69 million in payroll.

The oil and gas industry has been important to the economy of the Kenai Peninsula for over 40 years, and five of the top 10 employers are connected to the oil industry. Direct impact of the oil and gas industry has been estimated at 674 jobs with a payroll of \$63 million. Indirect economic impacts are estimated to be an additional 2,822 jobs and \$94 million in payroll. The induced impacts were 777 jobs and \$20 million in payroll. Total economic impact on the Kenai Peninsula was 4,273 jobs and \$177 million in payroll, which was 26 percent of the area's employment and 36 percent of the area's payroll. Taxable properties for the oil and gas industry were reported at \$607 million, and 8 of the top 10 property tax payers in the borough were oil and gas industry companies.

Demand for natural gas in the Cook Inlet area is projected to exceed supply by 2015 unless new reserves are discovered and developed. Decreasing supplies of Cook Inlet natural gas led to the closure of the Agrium plant in 2007, resulting in the loss of 250 jobs in the Kenai Peninsula Borough. The LNG export license and supply contracts will expire in 2011, and continued operation of the LNG plant may be jeopardized without long-term proven supplies of natural gas. Without increased Cook Inlet natural gas supplies, prices for residential and commercial natural gas and for electricity will continue to increase. Between 2000 and 2006, the price of natural gas increased 91 percent for Anchorage households, the cost of electricity increased 28 percent, and rates for home heating are expected to rise at least another 22 percent in January 2009.

## **B. Director's Final Finding and Signature**

The director of the Division of Oil and Gas has made a final finding that holding annual Cook Inlet Areawide oil and gas lease sales from 2009-2018 is in the best interests of the state. State law AS 38.05.035(e) and (g) requires that before an oil and gas lease sale, the director determine whether the lease sale is in the best interests of the state; state law also specifies what must be considered in making that determination. Annually, DO&G issues a call for substantial new information that has

become available since the most recent finding, and based on information received, the commissioner determines whether it is necessary to supplement the finding.

This final determination is based upon a review of all facts and issues known, or made known, to the director. The director has limited the scope of the finding to the lease sale phase of oil and gas activities and the reasonably foreseeable significant effects of a lease sale (AS 38.05.035(e)(1)(A)); conditions for phasing have also been met under AS 38.05.035(e)(1)(C). At the lease sale phase, the type, location, duration, timing, or level of any exploration or development activity that might subsequently occur cannot be predicted precisely. Therefore, the director has not considered possible specific effects of unknown future exploration, development and production activities that are outside the scope of the finding. The effects of future exploration, development, and production will be considered at each subsequent stage, when various government agencies and the public review permit applications for the specific activities proposed at specific locations in the area. However, the director did consider, in general terms, the potential effects that may occur subsequent to leasing.

In making this final finding, the director considered the petroleum potential of the lease sale area; the fish and wildlife and their habitats; current and projected uses in the area, including uses and value of fish and wildlife; the reasonably foreseeable cumulative effects of oil and gas exploration, development, production, and transportation on the lease sale area, including effects on subsistence uses, fish and wildlife habitat, populations, and their uses, and historic and cultural resources; the methods most likely to be used to transport oil or gas from the lease sale area and the advantages, disadvantages, and relative risks of each; the reasonably foreseeable fiscal effects of the lease sale and subsequent activity on the state and affected municipalities and communities; and the reasonably foreseeable effects of exploration, development, production, and transportation involving oil and gas on municipalities and communities in the lease sale area (AS 38.05.035(g)).

Although the initial benefit to the state will be the primary effect of leasing itself, the director recognizes that oil and gas exploration, development, and production subsequent to leasing could result in effects such as habitat changes; behavior changes in fish, wildlife and birds; and contamination of terrestrial, freshwater, and marine habitats. Therefore, general mitigation measures are included that will avoid, minimize, and mitigate potential negative effects. These address facilities and operations; habitat, fish, and wildlife; harvest activities; fuel, hazardous substances, and waste; access; prehistoric, historic, and archeological sites; and local hire, communications, and training.

Lessees must also comply with all applicable local, state, and federal codes, statutes, and regulations. Lessee advisories notify lessees of many of these additional regulatory protections, including those that are administered by the Alaska Departments of Natural Resources, Environmental Conservation, Fish and Game, and Labor and Workforce Development; the U.S. Army Corp of Engineers; the U.S. Fish and Wildlife Service; the National Marine Fisheries Service; and the Matanuska-Susitna Borough. Additional project-specific and site-specific mitigation measures will be applied as appropriate to plans of operations and proposals when submitted.

The state has sufficient authority through general constitutional, statutory and regulatory empowerments, the terms of the lease sale, the lease contract, and plan of operations permit terms to ensure that lessees conduct their activities safely and in a manner that protects the integrity of the environment and maintains opportunities for subsistence and other concurrent uses.

No activity may occur without further review and proper authorization from the appropriate permitting agency, and all activities must comply with the ACMP. When lessees propose specific activities, more detailed information such as site, type, and size of facilities will be known. In most cases, permit applications are public information, and most permitting processes include public comment periods. The department may impose additional terms during the permitting process if additional issues are identified.

The director also weighed the potential positive effects to the state, and has concluded that developing the state's petroleum resources is vital to the economies of the state and Cook Inlet area communities and municipalities, and to the well-being of its citizens. Petroleum revenues, totaling \$4.57 billion in fiscal year 2007, fund services, capital projects, revenue sharing and municipal assistance, education, and Permanent Fund dividends. As Alaska's largest industry, petroleum resources provide jobs with the highest average wage in Alaska, and direct and indirect positive economic effects of over \$3 billion through spending on goods and services. Demand for natural gas in the Cook Inlet area is projected to exceed supply by 2015 unless new reserves are discovered and developed, natural gas is transported to the area by a spur line from the proposed North Slope pipeline, or LNG is imported. Decreasing supplies of Cook Inlet natural gas could jeopardize industrial development and result in continued increases in costs for electricity and for heating businesses and homes, all of which will have far-reaching negative effects on local and state economies.

After weighing the facts and issues known to him at this time, comments received during the public comment period, applicable laws and regulations, and balancing the potential positive and negative effects given the mitigation measures and other regulatory protections, the director concludes that the potential benefits of the lease sale outweigh the possible negative effects, and that Cook Inlet Areawide oil and gas lease sales will best serve the interests of the state of Alaska.

A person affected by this decision who provided timely written comments or oral testimony may request reconsideration, in accordance with 11 AAC 02. Any reconsideration request must be received by February 9, 2009, and may be mailed or delivered to:

Thomas E. Irwin, Commissioner  
Department of Natural Resources  
550 W. 7th Avenue, Suite 1400  
Anchorage, Alaska 99501

Fax: 1-907-269-8918

Email: [dnr.appeals@alaska.gov](mailto:dnr.appeals@alaska.gov).

If reconsideration is not requested by that date or if the commissioner does not order reconsideration on his own motion, this decision goes into effect as a final order and decision on February 20, 2009. Failure of the commissioner to act on a request for reconsideration within 30 days after issuance of this decision is a denial of reconsideration and is a final administrative order and decision for purposes of an appeal to Superior Court. The decision may then be appealed to Superior Court within a further 30 days in accordance with the rules of the court, and to the extent permitted by applicable law. An eligible person must first request reconsideration of this decision in accordance with 11 AAC 02 before appealing this decision to Superior Court. A copy of 11 AAC 02 may be obtained from any regional information office of the Department of Natural Resources.



Kevin Banks, Acting Director

January 20, 2009

Date

I concur with the director that Cook Inlet Areawide oil and gas lease sales are in the state's best interest.



Thomas E. Irwin, Commissioner

January 20, 2009

Date

