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## Commentary

# Alaska: Don't put all your eggs (oil) in one basket

Pete Dronkers | Jul 06, 2011



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Contrary to obvious trends, Alaska lawmakers seem to believe oil is still the path forward. It's astonishing that multibillion-dollar tax breaks are part of the dialog, considering gasoline plans that would reduce the need to import gas while also generating revenue are essentially dormant. Meanwhile, efficiency measures were chopped in the capital budget, and renewable energy programs – although gaining some traction – remain a boutique concept rather than a serious priority.

This sentiment has less to do with idealism than with Alaska's ability to stay relevant in coming years. Optimism regarding the future of the Trans-Alaska Pipeline System (TAPS) and the oil that's supposed to fill it may make us feel good, but what has actually been happening – predictably since 1988 around the time oil production peaked in Alaska – is depletion, which stands at 6 percent a year.

It seems wise to plan on this trend continuing until there is reason to believe otherwise. Any other outlook treats a plethora of unknowns as bankable realities and assumes a major paradigm shift in U.S. policy and public opinion. The Arctic National Wildlife Refuge (ANWR) in northeastern Alaska and offshore development in the Arctic remain highly uncertain situations over which Alaska's congressional delegation has limited control. Arguing that these developments can, should and will be our way to lasting economic security represents an oversimplified and irresponsible approach to planning that places most of the eggs in one basket and ignores the fact that royalties are not generated on federal lands.

Consumers should realize oil is generally becoming more expensive because it's getting harder to pull from the ground and can't be produced fast enough to meet soaring demand. ANWR and Arctic offshore drilling would have virtually no impact on this global trend. We must keep in mind that U.S. oil production peaked in 1971 (1988 for Alaska) and global conventional crude production peaked around 2006. We're not immune to this because a pipeline traverses Alaska to provide 0.6 percent for world markets, so consumers should plan around escalating prices to protect their purchasing power. That may mean living close to work, driving a compact car, or adding insulation to your house.

Blaming everything on bureaucrats, futures traders (who have good reason to be concerned), and environmentalists is easy, but it prevents us from seeing the big picture and costs us a lot more money at the end of the day.

These days, if oil isn't expensive, it's because a serious global recession is under way that's reducing demand and slashing prices. Think 2008, when economic activity tanked and unemployment shot up. Oil prices have become the canary in the coal mine: If it's cheap, we've got bigger problems than high energy costs. But if it's expensive, the burden plunges us deep into recession.

It's a particularly mean market here because royalties from high prices fuel Alaska's life support, but they also hold people and small businesses under economic siege. To think this volatile dynamic represents a bright future is unwise, and throwing government money at it is even worse.

There is plenty of debate about why none of Alaska's proposed gas pipeline projects are moving quickly enough, but the proposed Donlin Creek Mine is already hoping to build a 320-mile gasline just for itself and fill it with gas from other countries if they can't buy it from Alaska. Although it's unclear whether Donlin will build their line (the mine and pipeline are both controversial), they can afford to do so – and they aren't waiting for domestic gas.

If a single mine can consider something of that magnitude, why can't a state with a budget many times larger?

We all agree on the need for a gasline, but it's clear that as long as natural gas prices stay low, private-sector ambitions for a major line aren't realistic. Some experts say market conditions will be right by 2030. If that's true, perhaps a gasline project deserves all of the subsidies we can put into it to get it off the ground now.



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If Alaska starts signing long-term gas import contracts in 2014, we lose future royalties and the economic benefits of a major project, and that hurts us all. As for efficiency and renewable energy, maybe it will take \$7 gasoline for consumers and the state to change their habits. The way things are going globally, that may not be far off.

While oil has certainly been good to Alaska and will be around for a bit longer, continuing to believe it is our savior, at the expense of economic diversification, is dangerous. Instead of efforts to prop-up the oil industry, we should be aggressively investing in arrangements that have a future – rather than those in obvious decline – and do everything possible to shield ourselves from high prices. This might not be what people want to hear, but it does seem to consistent with reality.

*Pete Dronkers was Nevada state coordinator for the Clean Energy Works Campaign from 2009-2010 and is a regular reader of the Energy Bulletin, published by the Post Carbon Institute. He lives in Fairbanks and is currently designing a solar homestead which will require minimal fossil fuels.*

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