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This week's Mining News



NEWS NUGGETS

Compiled by Shane Lesley

BLM takes a step on Amble Road

The Bureau of Land Management Feb. 28 opened a 10-day public scoping period for the Amble Mining District Industrial Access Road, a proposed 2.1-mile road that would run west from the Dalton Highway along the northern foothills of the Brooks Range to the Amble Mining District. If built, this road would provide surface access to the Upper Kotik Minerals Project, a large high-grade copper district being explored under a partnership between Trinity Metals and NANA Regional Corp. According to the latest estimates, the Amble and Brooks deposits at UKMP contain roughly 8.4 billion pounds of copper, 2.6 billion lbs of zinc, 610,000 lbs of gold, 45.3 million lbs of silver, as well as significant quantities of lead and cobalt. Trinity sees the potential for synergies for staged development and studying the economics of various scenarios for developing these neighboring world-class deposits. Arctic, a high-grade volcanogenic massive sulfide copper-zinc-lead-gold-silver deposit, is slated to be developed into a mine. The Alaska Industrial Development and Export Authority submitted an application with BLM, National Park Service, U.S. Coast Guard and U.S. Army Corps of Engineers for right-of-way, permits, and related authorizations for the proposed Amble Road project. BLM said development of the road would facilitate resource development and economic opportunities for the state of Alaska. Because approximately 26 miles of the proposed road would cross through a sensitive system near the Gates of the Arctic National Preserve, the entire application process is subject to provisions of the Alaska National Interest Lands Conservation Act (ANILCA). In addition to the preserve, the road would extend across state and Alaska Native corporation lands, as well as 24 miles of federal BLM-managed public lands. BLM Alaska will lead the analysis required by the National Environmental Policy Act, working cooperatively with other state and federal agencies. A 90-day public scoping period began with publication of BLM's Feb. 28 notice of intent in the Federal Register. The purpose of the public scoping process is to determine relevant issues that will influence the scope of an environmental impact statement for the Amble Road project, including proposed alternatives, and to guide the EIS process.

Dismantling WOTUS

Executive order to undo US water rule hailed as a victory for miners

By SHANE LESLEY
Mining News

With the signing of a presidential order that begins the process of undoing the Waters of the United States rule, President Donald Trump continues to make good on his promise to roll back regulations that are stifling economic development.

"The EPA's so-called 'Waters of the United States' rule is one of the worst examples of federal regulation, and it has truly run amok," Trump said during the Feb. 28 signing of the order.

The executive order to dismantle WOTUS was which would have been hit with higher costs and even larger permitting delays under the Obama administration.

"It is encouraging to see the administration prioritize actions that balance the importance of environmental protection with both states' authority and the regaining economy," said National Mining Association President Hal Quinn.

Unveiled in 2015, WOTUS substantially expands waters that fall under the jurisdiction of the U.S. Environmental Protection Agency and the U.S. Army Corps of Engineers by adding tributaries and neighboring wetlands, streams of waters already covered by federal law.

"Upon signing the executive order to roll back WOTUS, Trump called the rule a 'massive power grab' by the EPA.

Tributes under WOTUS would have included anything that remotely resembled a stream — a bed, bank, and ordinary high-water mark — even if it does not flow year-round. "Neighboring waters include wetlands and other watery features within 1,500 feet of navigable waters and sometimes such features within 4,000 feet of high tide or high water mark of a stream also would have been covered under the rule.

Even if a small portion of one of these neighboring waters falls within the guidelines, the entire body falls under the new WOTUS rule, regardless of its connection to downstream waters.

For Alaska — with its plentiful streams, rivers, creeks, ponds and wetlands — this means that vast swaths of lands would have been regulated by the Water Act and the regulatory agencies that administer it.

"The Waters of the United States or 'WOTUS' rule is one of the more burdensome, overreaching rules imposed by the Obama administration — a rule used to impose and delay almost any development project anywhere in Alaska," Sen. Lisa Murkowski, R-Alaska, said.

Markowski and Sen. Dan Sullivan, R-Alaska, both are looking forward to the dismantling of WOTUS.

"This new order signals a return to the rule of law and prioritizes environmental protection, keeping our waters clean without running rough shod over the Clean Water Act and the economy," said Sullivan. "I look forward to working with my colleagues and EPA Administrator Scott Pruitt to return to a balanced and statutorily based implementation of our environmental laws."

Trump it seems, agreed.

"With today's executive order, I'm directing the EPA to take action, paving the way for the elimination of this very destructive and horrible rule," the President said before signing the order. ■

Trump executive order to undo US water rule hailed as a victory for miners. Read more in North of 60 Mining News, page 9.

Armstrong permits sidetracks

Armstrong Energy LLC has permitted two sidetracks at its Horseshoe prospect.

The Alaska Oil and Gas Conservation Commission issued a permit on Feb. 13 for the company to drill the Horseshoe No. 1A well and on Feb. 24 for the Horseshoe 1B well.

Armstrong is using the Arctic Fox rig to drill the Horseshoe No. 1 exploration well southwest of the Kuparuk River unit,

see **SIDETRACKS** page 20

BOEM proposes Cook Inlet sale

The Bureau of Ocean Energy Management is proposing to go ahead this year with an oil and gas lease sale on the federal outer continental shelf of the lower Cook Inlet, the agency said Feb. 24. Lease sale 244, scheduled to take place in June, is the last sale of BOEM's current five-year outer continental shelf lease sale program. The agency proposes offering 224 blocks in the northerly sector of its Cook Inlet Planning Area — the blocks lie in an area between Kalgan Island in the north

see **BOEM SALE** page 20

Furie reviews Jones Act settlement

Furie Operating Alaska LLC is asking a federal judge for more time to consider a long-delayed but recently approved settlement over a Jones Act violation and fine.

In a recent status report, the company asked the U.S. District Court for the District of Alaska for an additional 60 days to provide final closing papers or an updated status report. The company also asked for the schedule of a potential trial in the case to be pushed back 60 days, saying that the fed-

see **FURIE REVIEW** page 19

LAND & LEASING

Expansion denied

State gives conditions if ConocoPhillips wants acreage south of Colville

By ERIC LIDJI

For Petroleum News

A showdown is brewing between the state of Alaska and ConocoPhillips Alaska Inc. over a potentially resource-rich plot of acreage south of the Colville River unit.

The state is refusing to allow ConocoPhillips to incorporate the acreage into the unit unless the company provides \$14 million in bonds and other payments, drills an exploration well this winter and commits to a future development program in the area.

ConocoPhillips had yet to provide a response to the state by the time Petroleum News went to print but previously cancelled plans to drill an exploration well on the expansion acreage this winter,

"Failure to comply with these terms can put the entire unit in default," Mack wrote, suggesting that the expansion area, if approved, could become a shackle on the third most productive unit in Alaska.

saying it was heeding the request of local community groups.

In a Feb. 17 decision, Department of Natural Resources Commissioner Andrew T. Mack denied a longstanding request from ConocoPhillips to add 9,146.60 acres to the unit unless the company provides a \$2.5 million performance bond for an exploration well planned for this winter, a \$10 million

see **EXPANSION DENIED** page 18

EXPLORATION & PRODUCTION

Slowdown for GMT-2

Native Village of Nuiqsut has asked BLM to delay consideration of NPR-A project

By TIM BRADNER

For Petroleum News

A protest from the village of Nuiqsut has thrown a kink into ConocoPhillips' schedule for its GMT-2 project in the National Petroleum Reserve-Alaska. The company had hoped to have construction begin on the project in 2018 and production to start in late 2020 but a slip in the schedule for preparing a supplemental environmental impact statement, or SEIS, may put that in jeopardy.

GMT-2 is expected to produce between 25,000 barrels per day to 30,000 barrels per day.

"BLM received a letter from the Native Village of Nuiqsut, or NVN, expressing major reservations

Native Village of Nuiqsut was also part of the lengthy litigation, in a coalition with environmental groups, against the CD-5 project and construction of a bridge across the Colville River.

about the GMT-2 project and asked BLM to delay its consideration," of the project, BLM spokeswoman Lesli Ellis-Wouters said in an email.

"The BLM took time to consult with the Native Village of Nuiqsut and respond to that request (to delay GMT-2), explaining that there is a statutory

see **GMT-2 SLOWDOWN** page 20

NATURAL GAS

Handouts to save LNG

BC gives C\$145M, 4,700 acres to 2 First Nations for Pacific NorthWest LNG project

By GARY PARK

For Petroleum News

With British Columbia Premier Christy Clark only two months from facing what could be the sternest test so far of her governing Liberal Party's 16-year run of power in the province, the time has come to loosen the purse strings, freeing up a surplus cash fund of C\$2 billion.

On the list of beneficiaries are First Nations, especially those standing in the way of LNG projects.

The first handout is C\$145 million in funding for two aboriginal communities — the Lax Kw'alaams and Metlakalta in northwestern British Columbia — allowing Malaysia's Petronas and its Asian partners in Pacific NorthWest to "work on a common goal of

Lax Kw'alaams Mayor John Helin hailed as "historic" the latest deal with the province, which included the transfer of 4,700 acres of government land.

realizing" the C\$36 billion venture, said chief project officer Wan Badrul Hisham.

But he declined to indicate when a final decision will be made, downplaying a prediction by Natural Gas Development Minister Rich Coleman that he expects a corporate go-ahead this year.

The pressure on Clark to keep LNG proposals from folding will intensify in the run up to voting on May 9 as the premier faces questions about her

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Alaska - Mackenzie Rig Report

Rig Owner/Rig Type Rig No. Rig Location/Activity Operator or Status

Alaska Rig Status

North Slope - Onshore

Doyon Drilling			
Dreco 1250 UE	14 (SCR/TD)	Milne Point, Cold Stack	Hilcorp
Dreco 1000 UE	16 (SCR/TD)	Standby	
Dreco D2000 Uebd	19 (SCR/TD)	Alpine CD5-20	ConocoPhillips
AC Mobile	25	Standby	
OIME 2000	141 (SCR/TD)	Kuparuk, Stack Out	ConocoPhillips
	142 (SCR/TD)	Kuparuk 1D-103	ConocoPhillips
TSM 7000	Arctic Fox #1	Prudhoe Bay Horse Shoe #1	Armstrong

Hilcorp Alaska LLC	Rig No.1	Milne Point	Hilcorp Alaska LLC
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Nabors Alaska Drilling			
AC Coil Hybrid	CDR-2	Kuparuk 2F-18	ConocoPhillips
AC Coil	CDR-3 (CTD)	Kuparuk	ConocoPhillips
Dreco 1000 UE	2-ES (SCR-TD)	Deadhorse	Available
Mid-Continental U36A	3-S	Deadhorse	Available
Oilwell 700 E	4-ES (SCR)	Deadhorse	Available
Dreco 1000 UE	7-ES (SCR/TD)	Deadhorse	Available
Dreco 1000 UE	9-ES (SCR/TD)	Deadhorse	Available
Oilwell 2000 Hercules	14-E (SCR)	Deadhorse	Available
Oilwell 2000 Hercules	16-E (SCR/TD)	Mustang location	Available
Oilwell 2000 Canrig 1050E	27-E (SCR-TD)	Deadhorse	Available
Oilwell 2000	33-E	Deadhorse	Available
Academy AC Electric CANRIG	99AC (AC-TD)	Deadhorse	Available
OIME 2000	245-E (SCR-ACTD)	Kuparuk	Available
Academy AC electric CANRIG	105AC (AC-TD)	Deadhorse	Available
Academy AC electric Heli-Rig	106AC (AC-TD)	Deadhorse	Available

Nordic Calista Services			
Superior 700 UE	1 (SCR/CTD)		Available
Superior 700 UE	2 (SCR/CTD)	Prudhoe Bay	Available
Ideco 900	3 (SCR/TD)		Available

Parker Drilling Arctic Operating Inc.			
NOV ADS-10SD	272	Prudhoe Bay DS 18	BP
NOV ADS-10SD	273	Prudhoe Bay DSW-59	BP

North Slope - Offshore

BP			
Top Drive, supersized	Liberty rig	Inactive	BP

Doyon Drilling			
Sky top Brewster NE-12	15 (SCR/TD)	Spy Island, Mobilization	ENI

Nabors Alaska Drilling			
OIME 1000	19AC (AC-TD)	Oooguruk, Cold Stacked	Caelus Alaska

Cook Inlet Basin – Onshore

Glacier Oil & Gas			
	Rig 37	West McArthur River Unit Workover	Glacier Oil & Gas

All American Oilfield LLC			
IDECO H-37	AAO 111	In All American Oilfield's yard in Kenai, Alaska	Available

Aurora Well Services			
Franks 300 Srs. Explorer III	AWS 1	Stacked out west side of Cook Inlet	Available

Saxon			
TSM-850	147	Stacked	Hilcorp Alaska LLC
TSM-850	169	Stacked	Hilcorp Alaska LLC

Cook Inlet Basin – Offshore

Hilcorp Alaska LLC			
National 110	C (TD) Rig 51 Rig 51	Platform C, Stacked Steelhead Platform, Stacked Monopod Platform, Drilling	Hilcorp Alaska LLC Hilcorp Alaska LLC Hilcorp Alaska LLC

Spartan Drilling			
Baker Marine ILC-Skidoff, jack-up		Spartan 151, Stacked Seward	

Furie Operating Alaska			
Randolf Yost jack-up		Drilling KLU A-2	Furie

Glacier Oil & Gas			
National 1320	35	Osprey Platform, activated	Glacier Oil & Gas

Kuukpik Drilling			
	5	King Salmon Platform	Hilcorp Alaska LLC

Mackenzie Rig Status

Canadian Beaufort Sea

SDC Drilling Inc.			
SSDC CANMAR Island Rig #2	SDC	Set down at Roland Bay	Available

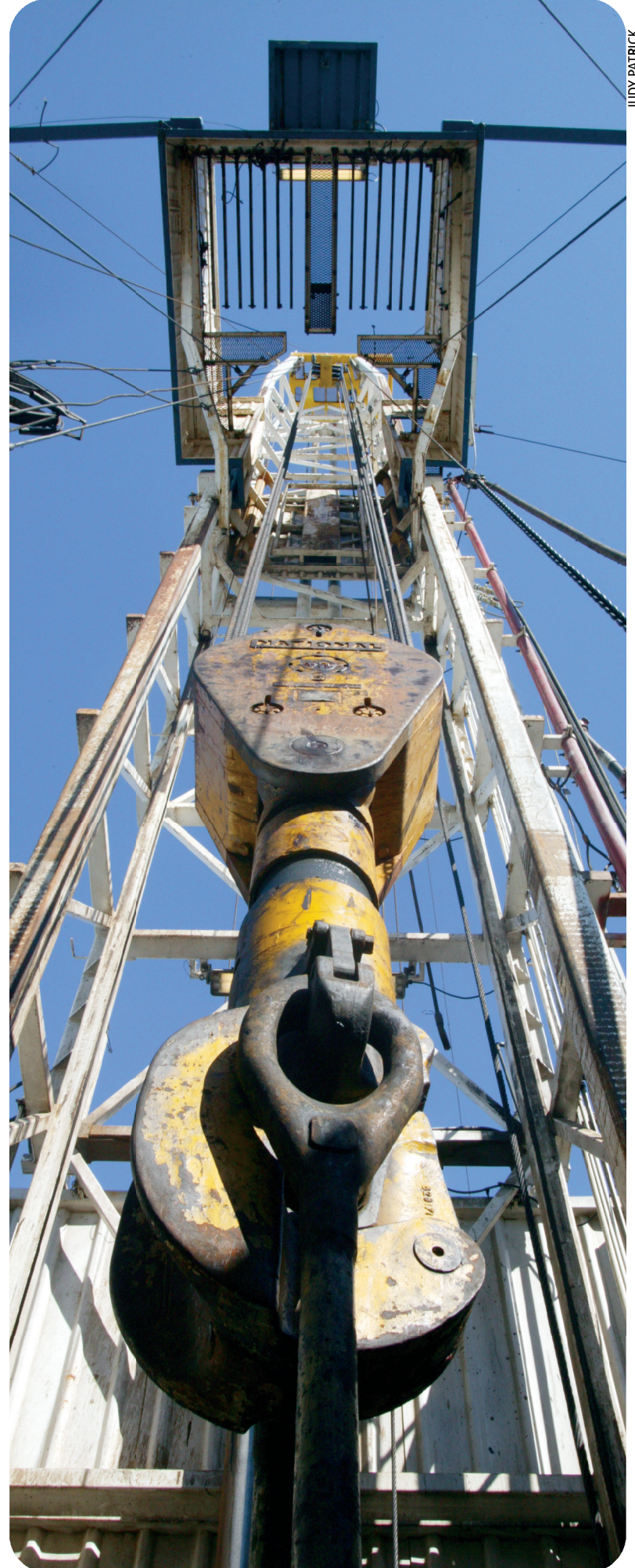
Central Mackenzie Valley

Akita			
TSM-7000	37	Racked in Norman Well, NT	Available

The Alaska - Mackenzie Rig Report as of March 1, 2017.
Active drilling companies only listed.

TD = rigs equipped with top drive units WO = workover operations
CT = coiled tubing operation SCR = electric rig

This rig report was prepared by Marti Reeve



JUDY PATRICK

Baker Hughes North America rotary rig counts*

	Feb. 24	Feb. 17	Year Ago
United States	754	751	502
Canada	341	331	175
Gulf of Mexico	17	17	27

Highest/Lowest

US/Highest	4530	December 1981
US/Lowest	404	May 2016

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• UTILITIES

IEP moving forward on finance plan

Agreement for purchase of Pentex by IGU and associated AIDEA financing is contingent on the signing of a gas supply contract

By ALAN BAILEY
Petroleum News

The Alaska Industrial Development and Export Authority's Interior Energy project team has transferred to the Interior Gas Utility the agreement for the purchase by IGU of Pentex Natural Gas Co, Gene Therriault, IEP team leader, told the AIDEA board on Feb. 23. The IEP team is also in the process of completing the financing agreement for the use by IGU of AIDEA funds for the implementation of a consolidated utility and gas supply for the city of Fairbanks, Therriault said.

However, execution of the agreements is contingent on the establishment of a workable gas supply contract for IGU with a Cook Inlet gas producer, Therriault added.

Expanded gas supply

The IEP has the goal of establishing an expanded and economically viable natural gas supply for Fairbanks, to reduce the city's dependence on fuel oil for heating and electricity, and to reduce air pollution in the city during the winter. Currently gas utility Fairbanks Natural Gas supplies gas to some consumers in the central part of the city via a small liquefied natural gas facility near Port MacKenzie on Cook Inlet and an associated trucking operation for transporting the LNG to Fairbanks by road.

AIDEA owns Pentex, which in turn owns the LNG plant, the trucking operation and FNG. The idea is that the purchase of Pentex from AIDEA by IGU will result in a single, consolidated gas utility in Fairbanks. IGU plans to expand the LNG plant and the Fairbanks gas distribution network, so that, with an appropriate contract with a Cook Inlet producer, gas can be delivered at a workable price to a greatly enlarged customer base in the Fairbanks region. In January IGU and AIDEA signed a memorandum of understanding for the Pentex purchase.

Funding arrangements

To execute the planned expansion to the various arrangements for the gas supply, IGU plans to use funding available through AIDEA. That funding consists of a combination of a \$42.5 million state capital appropriation, \$135 million in AIDEA Sustainable Energy Transmission and Supply, or SETS

loans, and \$150 million in AIDEA bonds.

Mark Gardiner from the Western Financial Group told the AIDEA board that the financing agreement that is being developed specifies the overall business structure for the relationship between AIDEA and IGU, including the elements of that business structure that will ensure that IGU will be an investment grade utility.

Therriault also said that negotiations with a Cook Inlet gas producer for a gas supply agreement have now been transitioned to IGU. IGU is keeping Dan Britton, president of FNG, informed of the status of the negotiations, to assure FNG that there will be continuity of supplies for FNG's customers when FNG's existing gas supply contract expires a little over a year from now.

'Things in play'

Therriault said that there are currently "things in play" in the Cook Inlet gas industry that the IEP team has no control over. The team has let the state administration know that these issues impact the ability to close a gas supply deal, he said. Therriault also commented that he had heard that the terms of the deal under negotiation had been pushed up the gas producer's management chain and that the local officials hoped soon to have an indication of the company's view of the deal.

"All indications are that, although the progress is slower than I had been anticipating or hoped, there is still forward movement," Therriault said.

Other options?

In his remarks to the AIDEA board Therriault commented on the possibility that some other vendor might propose some better means of delivering gas to Fairbanks. He specifically referenced a proposal, previously reported in Petroleum News, for the construction of an LNG plant in the Houston area for the transportation of LNG on the Alaska Railroad. Therriault said that he is passing any such proposals to Britton for technical evaluations.

"At this point we've not received any information on a counter proposal that has enough information to really do apples-to-apples comparisons," he said. ●

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• GOVERNMENT

Birch: Don't fix what's not broken

Anchorage Republican, freshman lawmaker says he's enjoying immersion into Resources Committee and hearty HB111 oil tax debate

By **STEVE QUINN**
For *Petroleum News*

House Rep. Chris Birch wasted little time in pursuing the heavy lift as a freshman lawmaker. He grabbed a seat on House Resources, which is immersed in HB 111, an effort to revise tax credits and rates at low oil prices. Birch, an Anchorage Republican, shared his perspective of his first session, now past the halfway mark.

Petroleum News: What piqued your interest in being on the Resources Committee as a freshman lawmaker?

Birch: I'm a mining engineer by way of education and a registered civil engineer by training and profession. So I spent a large part of my life building Alaska and being engaged from the trans-Alaska pipeline construction which was my first design job out of college in 1972 to working for TAPS in Anchorage in the early '90s.

So what piqued my interest was clearly the objective we need to have in Alaska is to recognize the importance of resource development, whether it's mineral resources or oil and gas resources or timber resources.

My interest in the Resources Committee stems from my view that if we are going to continue our success track and progress as a state we need to basically move forward. And responsibly how we can maximize our revenue from those state assets?

Petroleum News: So what have you learned so far from being on Resources?

Birch: I'm seated on three committees: State Affairs, Labor and Commerce and Resources. I would say Resources is far and away the most interesting and I think it is the committee that has the most potential for positive engagement for Alaskans, and being successful as we move forward. Resources has an objective, a constitutional obligation, would be to responsibly develop our assets for the benefit of our citizens.

When you start looking at, again whether it's oil and gas or mining, the policies that affect resources are going to be dealt with in the Resources Committee. That certainly would pique my interest. The people I've worked with over the years have come to largely

view resource development as something that we need to have a regulatory framework in place at the state level that embraces and supports that development.

Petroleum News: Many people the first couple of weeks feel almost overwhelmed by the volume. Are you seeing a lot of that volume, whether it's paperwork and bills or otherwise?

Birch: I don't think so. It's been a lot of work, 12- and 14-hour days where we get in here early and get out of here late. From a work standpoint, it involves a lot of interaction with the public. We get a lot of visitors and that's important. From a committee standpoint looking at the process where we evaluate and consider legislation, that's certainly a critical piece. In some respects, the issue of trying to invite public testimony and get a good understanding where the public interest lies on a given issue is certainly helpful.

But we are well organized in the office. I've got Ashton Compton working with me. There is just the two of us here in the office. She's been in the building in one capacity or another for seven years. She's extremely helpful in making sure we are organized so that when we go into a committee meeting, we have the documentation. We are trying to go to a paperless operation. I know the State Affairs chairman (Jonathan Kreiss-Tomkins) is trying to go to a paperless function because we do move a lot of paper through the building. I think as far as efficiency and process, there is always room for improvement but the process seems to be working OK.

Petroleum News: On HB 111, what has been your takeaway so far with the presentations? You've been getting observations from both sides.

Birch: Certainly a little bit on both sides. I guess my concern is, if it's not broken why fix it? My sense is in looking at SB 21 that we've got new investment on the North Slope. In 2013, there was a real push for tax credits. I think Les Gara (Anchorage Democrat opposed



REP. CHRIS BIRCH

to current tax regime) was a part of that. There was broad based support for tax credits to invite smaller players into the market and encourage exploration and development. There seems to be a lot of discussion about whether tax credits have done their job — and I think that debate should be open.

From one perspective tax credits are a part of integral part of the tax structure, whether it's net operating losses where you induce the kind of behavior that you want, the exploration and development that you want, out of an oil company that may not otherwise be interested in doing the exploration and making the investment necessary to go out and discover a Smith Bay or other unfound resources. I think to that end it's been successful. Even ConocoPhillips, they are working NPR-A.

I'm very encouraged that the state Legislature recently passed an open ANWR bill. For many that's kind of a motherhood and apple pie, a land-based oil asset that has tremendous potential by all indications, including the USGS. So I think the future is bright for us but I think we need to make sure we are not an impediment to progress, and we're not making ourselves uncompetitive for investment capital.

The commissioner of DNR — we met with him here a couple of weeks ago — and he commented on how the technology is improving in the Lower 48 on oil fracking. The cost per barrel is falling. In other words the cost of producing a barrel of oil in the Permian basin, for instance, is less today than it was five years ago as that technology improves.

So those are competitive markets for us. They can turn it on and turn it off. If oil creeps up to a point where we think it's going to be successful for us, we have to be mindful of the fact that it's also improving the marketability and the prospects of many other regions in the country.

Petroleum News: One of the concerns that's driving HB 111, is that at these oil prices — if they stay this way eight to 10 years — the state won't be able to afford some of these credits. So if you can't afford the system we have now, what do you do?

Birch: Half of the credits disappeared when they withdrew the Cook Inlet program. The credits are of diminished impact. With the governor's veto over the last couple of years, it has certainly diminished the reliability those credits

see **BIRCH Q&A** page 17

Q&A

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GOVERNMENT

Zinke confirmed as Interior secretary

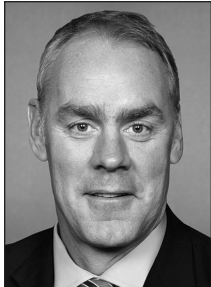
U.S. Rep. Ryan Zinke, R-Montana, was confirmed March 1 as secretary of the Interior by a 68-31 vote.

"I am hopeful that Rep. Zinke's confirmation will mark the start of a new era for the Department of the Interior that is defined by greater cooperation with Congress, the states, and the local residents affected by its decisions," U.S. Sen. Lisa Murkowski, R-Alaska, said in a statement. "This is particularly important for Alaska, which has more at stake and is more deeply affected by this Department than any other part of our country. I congratulate Rep. Zinke on his confirmation, am eager to work with him to restore balance to the management of federal areas, and cannot wait to bring him to our state."

Murkowski chairs both the Senate Committee on Energy and Natural Resources and the Appropriations Interior-Environment Subcommittee.

Gov. Bill Walker also applauded Zinke's confirmation, and congratulated the secretary.

"As a state where more than 65 percent of land is controlled by the federal government, it is crucial that the Interior Department understand the nuances of Alaska, and the issues we face. Our administration looks forward to working with Secretary Zinke and members of his department in the years ahead," the governor said.



RYAN ZINKE

—PETROLEUM NEWS

FINANCE & ECONOMY

NSB, Exxon settle Pt. Thomson tax appeals

The North Slope Borough said in a Feb. 27 statement that it has settled Point Thomson tax appeals with ExxonMobil Alaska Production Inc. ExxonMobil began production from Point Thomson on an intermittent basis last April and production from the field has been fairly steadily since the end of the year.

"Today's agreement to settle outstanding tax disputes on the valuation of Pt. Thomson development demonstrates another historic milestone for the people of the North Slope Borough," said NSB Mayor Harry K. Brower Jr.

He said establishing "partnerships and relationship building with external organizations for economic growth and empowerment in our North Slope communities" has been a goal of his administration. The mayor was sworn into office last July.

"This is a perfect example of that," Brower said. "We recognize that ExxonMobil's success reflects our leadership and support for responsible development for the betterment of our people and our communities."

ExxonMobil Alaska Production Manager Cory Quarles said the company deeply values its relationship with the borough "and looks forward to continued collaboration in the future. This serves as an example of how industry and government can work together to enable the fiscal stability that supports local municipalities and provides the foundation for continued investment that benefits all Alaskans," Quarles said.

Forrest "Deano" Olemaun, chief administrative officer for the borough, said the agreement is for the next four years and said it would provide a more stable and predictable budget environment and help ensure financial security for the borough and the company.

—KRISTEN NELSON

FINANCE & ECONOMY

NordAq sues ex-chair over alleged fraud

Company alleges misappropriation of funds over several years for personal use by Johnathon Kidd and a previous CFO and CEO

By ALAN BAILEY

Petroleum News

NordAq Energy Inc., a company that in recent years has been conducting oil and gas exploration in Alaska, has filed suit in federal District Court, suing Johnathon Kidd. The suit alleges that Kidd, a British citizen who was a company founder and erstwhile board chairman, and his friend Paul Devine have bilked the company out of millions of dollars. Devine was NordAq chief financial officer from 2011 to 2013 and chief executive officer from 2013 to 2015. Between 2011 and 2015 Devine, either alone or working in concert with Kidd, had misappropriated more than \$6.5 million from NordAq through a variety of schemes, NordAq claims.

Kidd used NordAq funds and properties, without board approval, for the benefit of his and Devine's families and friends, NordAq claims, NordAq did not discover Kidd's actions until September 2016, the company says. Devine used money acquired from NordAq to benefit more than 50 of his friends and relatives through payments for homes, personal vacations, college tuition and personal expenses, the company claims. And, with Kidd being an officer and director of NordAq while this misconduct was in progress, Kidd either was aware or should have been aware of what was going on, NordAq says.

NordAq's court filing also accuses Devine of using a consultancy company which he controlled and which had a consulting agreement with Kidd to misappropriate NordAq funds under the guise of consulting fees, with these funds being transferred to Devine and Kidd. In addition Devine periodically instructed NordAq's finance personnel to transfer money, beyond his salary, into his personal bank account, and Devine charged unauthorized personal expenses to NordAq debit cards, NordAq says.

Kidd also authorized salary increases and bonuses for Devine without obtaining

the necessary approval from the board, NordAq says.

Specific instances of alleged misconduct listed in NordAq's court filing include more than \$5 million in bank wire transfers; \$413,000 charged to company debit cards; and an increase in Kidd's consulting compensation, without board approval, from \$25,000 to \$40,000 per month. Expenses of \$1.3 million transferred through Devine's consultancy company included \$84,000 for a horse-breeding company owned by an associate of Kidd; \$16,088 for a golf outing for Kidd's daughter; support payments for Kidd's son and daughter; and various payments to Lord Maxwell Beaverbrook, characterized as Kidd's cousin, the filing says. Some of the payments to Beaverbrook were for unsubstantiated and unjustified consulting services, NordAq claims.

Between 2011 and 2015 unauthorized payments of fringe benefits were used for personal expenses, including \$221,961 for two London apartments for Kidd and \$107,717 for Devine's Anchorage apartment, the NordAq statement says.

NordAq's only line of business is oil and gas exploration in Alaska. The company entered the state in 2010 when it purchased some state acreage in the Cook Inlet basin. The company subsequently pursued natural gas prospects, the Shadura prospect in the northern Kenai Peninsula and the Tiger Eye prospect, near Trading Bay, onshore the west side of the inlet. The company has since dropped both of these exploration programs.

NordAq has a minorityworking interest in an exploration project that Caelus Energy is pursuing in Smith Bay, offshore the National Petroleum Reserve-Alaska. Caelus has announced a major oil find in this exploration program. NordAq also owns some leases in NPR-A. ●

The Alaska Dispatch News originally broke this story.

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● GOVERNMENT

Legislature passes ANWR resolution

State lawmakers urge Congress to have another go at opening the coastal plain of the Arctic refuge for oil and gas development

By ALAN BAILEY
Petroleum News

With a new Congress and a new administration in Washington D.C., the Alaska Legislature is trying yet again to have the federal government open the coastal plain of the Arctic National Wildlife Refuge for oil and gas development. An amended House joint resolution urging Congress to approve environmentally responsible oil and gas exploration, development and production in the ANWR coastal plain passed the Senate Feb. 22. Two days later the House concurred with the Senate changes. The resolution subsequently went to Gov. Bill Walker for his signature.

In addition to requesting the lifting of the ANWR oil and gas moratorium, the resolution recognizes the need to protect the Porcupine caribou herd that Native communities depend on as a subsistence resource; the need to use technical advances such as directional drilling to minimize the surface impact of oil and gas activities; the importance of the federal government pursuing alternative and renewable energy sources as well as opening the ANWR coastal plain for oil and gas; and the importance of the state receiving 90 percent of any ANWR oil and gas royalties, as specified at the time of Alaska statehood.

A long controversy

The long-simmering controversy over potential oil and gas development in ANWR dates back to the formation of the refuge in 1980 as part of the Alaska National Interest Lands Conservation Act. Under the terms of that act, Congress set aside 1.5 million acres along the northern coast of the 19.5 million-acre refuge for possible future development. However, the opening for development of this designated area of the coastal plain, referred to as the 1002 Area, requires an act of Congress. And, despite numerous attempts, an appropriate statute has never passed both houses of Congress and obtained a presidential signature.

The appeal of the 1002 Area for oil and gas development is simple: The geology under the ANWR coastal plain is a continuation of the geology that hosts the productive oil fields of the central North Slope.

With little surface rock exposure, most of what is known about the subsurface of the area has been derived from seismic surveys conducted in the 1980s, and from rocks observed in the mountains of the Brooks Range to the immediate south. And, while there is no certainty over how much undiscovered oil and gas the 1002 Area may hold, it is clear that the area does host many of the major petroleum-bearing features found to the west.

In 1998 the U.S. Geological Survey conducted an

In 2010 attention switched to questions over whether wilderness designations should be extended into the 1002 Area, as the U.S. Fish and Wildlife Service worked on a new ANWR conservation plan.

assessment of the area, determining that the area may hold somewhere between 5.7 billion and 15.9 billion barrels of undiscovered, technically recoverable oil, with an estimated mean volume of 10.3 billion barrels.

But only one well has ever been drilled in the 1002 Area. This was the KIC well, drilled in 1985 and 1986 by Chevron and BP from surface land owned by Kaktovik Inupiat Corp., the Native village corporation for the village of Kaktovik. The findings from that well remain a commercial secret.

Meanwhile, ANWR has become something of a poster child for the environmental conservation movement. And the Gwich'in people of the Alaska Interior, worried about the potential impact of industrial activity on the Porcupine caribou herd, a major subsistence resource, have expressed opposition to oil development on the ANWR coastal plain.

Thus has emerged the multi-year standoff over ANWR development.

Efforts at opening

The opening of the 1002 Area for oil development perhaps came closest in 1995, when Republican majorities in both the Senate and the House passed an act that would have allowed drilling. But President Bill Clinton vetoed that act.

The 2000s saw multiple attempts at opening the area. For example, in 2002 President George W Bush included the 1002 Area opening in an Energy Bill. But that effort died when most Senate Democrats and some Republicans opposed the measure. In 2003 the Senate, by a narrow majority, removed an ANWR development provision from a federal budget resolution.

In 2004, with Republicans in control of the House, the Senate and the White House, the ANWR debate emerged again. In 2005 the approval of ANWR drilling was again included in a federal budget bill, but was subsequently dropped following vociferous opposition. The opening of ANWR was also included in an energy bill that was introduced that year. However, the ANWR provisions were subsequently removed from the version of the bill that was eventually passed.

In an effort which came close to success, in late 2005 Sen. Ted Stevens inserted an ANWR provision into defense spending legislation. The provision would have

allowed development in 2,000 acres of the coastal plain. However, after more than eight hours of behind-the-scenes wrangling, the Republican majority in the Senate failed to muster enough votes to prevent a Democratic filibuster — the legislation eventually passed without the inclusion of the ANWR provisions.

In 2008, following several years of frustration over the ANWR oil drilling issue, Senate Republicans announced that they were dropping the issue from consideration that year.

Wilderness designation?

In 2010 attention switched to questions over whether wilderness designations should be extended into the 1002 Area, as the U.S. Fish and Wildlife Service worked on a new ANWR conservation plan. This effort culminated in 2015 with an environmental impact statement, recommending that the whole of ANWR, including the 1002 Area, should be designated as wilderness, off limits to oil and gas development. President Obama subsequently wrote to Congress requesting the wilderness designation, although Congress did not act on that request.

In 2012 yet another bill allowing oil and gas leasing in the 1002 Area passed the Republican-led House of Representatives, only to be rejected by the Democratic controlled Senate.

State exploration plan

In 2013 the Alaska administration of Gov. Sean Parnell tried a different tack, applying to the Department of the Interior for approval of an exploration plan involving a seven-year seismic acquisition and drilling program for the ANWR coastal plain. The governor pledged to ask state legislators for \$50 million to help fund the program. The governor's move came in response to the lack of an oil and gas development alternative in the new ANWR conservation plan that the U.S. Fish & Wildlife Service had been preparing. Following rejection by Interior of the exploration plan proposal, the state applied for a special use permit for a 3-D seismic survey.

The state claimed that under the terms of the Alaska National Interest Lands Conservation Act, anyone could apply directly to Interior for acceptance of an exploration plan in ANWR. However, Interior refused consideration of the plan on the grounds that the agency's authority to review plans of this type had expired in 1987, at which time Interior had filed a report on the oil and gas potential of the 1002 Area. The federal District Court in Alaska subsequently upheld Interior's position. ●

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• EXPLORATION & PRODUCTION

February ANS down marginally from January

North Slope production averages 553,435 bpd, down month-over-month; January Cook Inlet production averages 13,862 bpd, down 4.8%

By KRISTEN NELSON

Petroleum News

Alaska North Slope crude oil production averaged 553,434 barrels per day in February, down 0.3 percent, 1,418 bpd, from a January average of 554,852 bpd, but up 2.2 percent from a February 2016 average of 541,450 bpd.

The largest per-barrel increase was at the BP Exploration (Alaska)-operated Prudhoe Bay field, the Slope's largest, which averaged 318,472 bpd in February, up 1.8 percent, 5,703 bpd, from a January average of 312,769 bpd.

Prudhoe Bay includes satellite production from Aurora, Borealis, Midnight Sun, Orion, Polaris, Sag River, Schrader Bluff and Ugnu, as well as production from the Hilcorp Alaska-operated Milne Point and Northstar fields.

January production for Milne Point averaged 18,946 bpd, down 11 percent, 2,342 bpd, from a December average of 21,289 bpd. Northstar averaged 5,700 bpd in January, up 1.82 percent, seven bpd, from a December average of 5,693 bpd.

Information for February comes from the Alaska Department of Revenue's Tax Division which reports North Slope oil production consolidated by major production centers and provides daily production and monthly averages. More detailed data, including Cook Inlet and individual North Slope fields and pools, is reported by the Alaska Oil and Gas Conservation Commission on a month-delay basis.

The BP-operated Lisburne field averaged 22,966 bpd, up 4.87 percent, 1,067 bpd, from a January average of 21,899 bpd. Lisburne includes production from Niakuk, Point McIntyre and Raven.

Other ANS fields down month-over-month

Production from other North Slope fields was down month-over-month.

The smallest month-over-month decrease was at the ConocoPhillips Alaska-operated Kuparuk River field, which averaged 142,676 bpd, down 0.1 percent, 91 bpd, from a January average of 142,767 bpd. Kuparuk produc-

The largest per-barrel increase was at the BP Exploration (Alaska)-operated Prudhoe Bay field, the Slope's largest, which averaged 318,472 bpd in February, up 1.8 percent, 5,703 bpd, from a January average of 312,769 bpd.

tion volumes include satellite production from Meltwater, Tabasco, Tarn and West Sak, as well as from the Eni-operated Nikaitchuq and Caelus Alaska-operated Oooguruk fields. AOGCC data show Nikaitchuq averaged 20,405 bpd in January, down 4.2 percent, 884 bpd, from a December average of 21,289 bpd, while Oooguruk averaged 14,098 bpd in January, down 1.8 percent, 257 bpd, from a December average of 14,355 bpd.

The ConocoPhillips-operated Alpine field averaged 58,688 bpd in February, down 1.9 percent, 1,144 bpd, from a January average of 59,832 bpd. Alpine volumes include satellite production from Fiord, Nanuq and Qannik.

The largest month-over-month decline, 39.5 percent, was at the Hilcorp-operated Endicott field, which averaged 10,632 bpd, down 6,953 bpd from a January average of 17,585.

Endicott volumes include Eider, Minke and Sag Delta, the Caelus Alaska-operated Badami field and the ExxonMobil Production-operated Point Thomson field. Endicott volumes were in the 9,000 and 10,000 bpd range most days in February, peaking the last few days of the month and hitting 19,758 bpd Feb. 28. Prior to Point Thomson coming online in April Endicott volumes averaged in the 9,000 and 10,000 bpd range. Point Thomson can produce 10,000 bpd and AOGCC data show it averaged 7,634 bpd in January, up 10.7 percent, 736 bpd, from a December average of 6,898 bpd. Daily Endicott volumes reported by the Tax Division appear to indicate that Point Thomson was not producing at anywhere near 10,000 for the majority of February, but volumes for that month will not be available until late March. AOGCC data for Badami show that field averaged 913 bpd in January, down 3.8 per-

cent, 36 bpd, from a December average of 949 bpd.

Cook Inlet down in January

AOGCC data show Cook Inlet averaged 13,862 bpd in January, down 4.8 percent, 703 bpd, from a December average of 14,565 bpd, with all but three Cook Inlet fields down month-over-month.

The Glacier Oil & Gas operated-Redoubt Shoal field had the largest month-over-month gain by percentage, averaging 801 bpd in January, up 25.7 percent, 164 bpd, from a December average of 19,759 bpd, followed by Glacier's West McArthur River field, which averaged 1,331 bpd in January, up 16.3 percent, 186 bpd, from a December average of 1,145 bpd. The only other Cook Inlet field with a month-over-month production gain was the Hilcorp Alaska's Trading Bay field, which averaged 1,680 bpd in January, up 2.2 percent, 36 bpd, from a December average of 1,644 bpd.

The largest month-over-month drop was at Hilcorp's McArthur River field, Cook Inlet's largest, which averaged 3,697 bpd in January, down 19.6 percent, 899 bpd, from a December average of 4,595 bpd.

Hilcorp's Beaver Creek field averaged 190 bpd, down 5.2 percent, 10 bpd, from a December average of 200 bpd, while Hilcorp's Middle Ground Shoal field averaged 1,750 bpd in January, down 4.4 percent, 80 bpd, from a December average of 1,829 bpd.

Hilcorp's Swanson River field averaged 1,828 bpd in January, down 3.8 percent, 73 bpd, from a December average of 1,901 bpd.

The BlueCrest-operated Hansen field, the Cosmopolitan project, averaged 154 bpd in January, down 2.3 percent, four bpd, from a December average of 158 bpd.

Hilcorp's Granite Point field averaged 2,431 bpd in January, down 1 percent, 24 bpd, from a December average of 2,455 bpd.

ANS crude oil production peaked in 1988 at 2.1 million bpd; Cook Inlet crude oil production peaked in 1970 at more than 227,000 bpd. ●

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NEWS NUGGETS

Compiled by Shane Lasley



TRILOGY METALS INC.

A headframe from Kennecott-era exploration of the Bornite deposit in the Ambler Mining District rises above the camp that serves as the base of operations for modern exploration of this copper-rich region in Northwest Alaska.

BLM takes a step on Ambler Road

The Bureau of Land Management Feb. 28 opened a 90-day public scoping period for the Ambler Mining District Industrial Access Road, a proposed 211-mile road that would run west from the Dalton Highway along the southern foothills of the Brooks Range to the Ambler Mining District. If built, this road would provide surface access to the Upper Kobuk Minerals Project, a large high-grade copper district being explored under a partnership between Trilogy Metals and NANA Regional Corp. According to the latest resource calculations, the Arctic and Bornite deposits at UKMP together host roughly 8.4 billion pounds of copper; 2.6 billion lbs of zinc; 610,000 oz of gold; 45.3 million oz of silver; as well as significant quantities of lead and cobalt. Trilogy sees the potential for synergies for staged development of Arctic and Bornite, which are about 16 miles apart, and is studying the economics of various scenarios for developing these neighboring world-class deposits. Arctic, a high-grade volcanogenic massive sulfide copper-zinc-lead-gold-silver deposit, is slated to be developed into a mine first. The Alaska Industrial Development and Export Authority submitted an application with BLM, National Park Service, U.S. Coast Guard and U.S. Army Corps of Engineers for rights-of-way, permits, and related authorizations for the proposed Ambler Road project. BLM said development of the road would facilitate resource development and economic opportunities for the state of Alaska. Because approximately 26 miles of the proposed road would pass through a conservation system unit, the Gates of the Arctic National Preserve, the entire application process is subject to provisions of the Alaska National Interest Lands Conservation Act (ANILCA). In addition to the preserve, the road would extend across state and Alaska Native corporation lands, as well as 24 miles of isolated BLM-managed parcels. BLM Alaska will lead the analysis required by the National Environmental Policy Act, working cooperatively with other state and federal agencies. A 90-day public scoping period began with publication of BLM's Feb. 28 notice of intent in the Federal Register. The purpose of the public scoping process is to determine relevant issues that will influence the scope of an environmental impact statement for the Ambler Road project, including proposed alternatives, and to guide the EIS process.



PHOTO VIA TWITTER

Alaska Sen. Dan Sullivan joins fellow lawmakers, EPA Administrator Scott Pruitt and President Donald Trump for a photo commemorating the signing of a presidential order requiring the EPA to revisit its Waters of the United States rule.

REGULATORY REFORM

Dismantling WOTUS

Executive order to undo US water rule hailed as a victory for miners

By SHANE LASLEY
Mining News

With the signing of a presidential order that begins the process of undoing the Waters of the United States rule, President Donald Trump continues to make good on his promise to roll back regulations that are stifling economic development.



DONALD TRUMP



HAL QUINN

"The EPA's so-called 'Waters of the United States' rule is one of the worst examples of federal regulation, and it has truly run amok," Trump said during the Feb. 28 signing of the order.

The executive call to dismantle WOTUS was hailed as a victory for the U.S. mining sector, which would have been hit with higher costs and even longer permitting delays under the Obama administration rule.

"It is encouraging to see the administration prioritize actions that balance the importance of environmental protections with both states' authority and the regulatory certainty that is required to support a thriving economy," said National Mining Association President Hal Quinn.

Unveiled in 2015, WOTUS substantially expands waters that fall under the jurisdiction of the U.S. Environmental Protection Agency and U.S. Army Corps of Engineers by adding tributaries and neighboring wetlands upstream of waters already covered by federal law.

Upon signing the executive order to roll back WOTUS, Trump called the rule a "massive power grab" by the EPA.

Tributaries under WOTUS would have included anything that remotely resembled a stream – a bed, bank, and ordinary high-water mark – even if it does not flow year-round. Nearby waters include wetlands and other watery features within 1,500

feet of navigable waters and sometimes such features within 4,000 feet of high-tide or high water mark of a stream also would have been covered under the rule.

Even if a small portion of one of these neighboring wet features fall within the guidelines, the entire body falls under the new WOTUS rule,

regardless of its connection to downstream waters.

For Alaska – with its plentiful streams, river, rivulets, coasts and wetlands – this means that vast swaths of lands would have been regulated by the state would have been subject to the federal Clean Water Act and the regulatory agencies that administer it.

"The Waters of the United States or 'WOTUS' rule is one of the most burdensome, overreaching rules imposed by the Obama administration—a regulation with such broad reach that it could be used to impact and delay almost any development project anywhere in Alaska," Sen. Lisa Murkowski, R-Alaska, said.

Murkowski and Sen. Dan Sullivan, R-Alaska, both are looking forward to the dismantling of WOTUS.

"This new order signals a return to the rule of law and prioritizes environmental protection, keeping our waters clean without running rough shod over the Clean Water Act and our economy," said Sullivan. "I look forward to working with my colleagues and EPA Administrator Scott Pruitt to return to a balanced and statutorily based implementation of our environmental laws."

Trump, it seems, agreed.

"With today's executive order, I'm directing the EPA to take action, paving the way for the elimination of this very destructive and horrible rule," the President said before signing the order. ●

NORTHERN NEIGHBORS

Compiled by Shane Lasley



ROCKHAVEN RESOURCES LTD.

Drilling at Rockhaven Resources' Klaza property in the Yukon has outlined 9.42 million metric tons of inferred resource grading 4.48 grams per metric ton (1.36 million ounces) gold, 89.02 g/t (26.96 million oz) silver, 0.75 percent (155.4 million pounds) lead and 0.95 percent (197.8 million lbs.) zinc.

Coeur agrees to invest in Yukon gold explorer

Rockhaven Resources Ltd. Feb. 24 said Coeur Mining Inc. has agreed to invest C\$675,000 to acquire 3.75 million Rockhaven shares at C18 cents each. Rockhaven's primary asset is Klaza, a southern Yukon project about 225 miles (360 kilometers) north of Coeur's Kensington gold mine in Alaska. Klaza hosts a deposit with 9.42 million metric tons of inferred resource grading 4.48 grams per metric ton (1.36 million ounces) gold, 89.02 g/t (26.96 million oz) silver, 0.75 percent (155.4 million pounds) lead and 0.95 percent (197.8 million lbs) zinc. A preliminary economic assessment completed for Klaza in 2016 and Rockhaven is focused on additional metallurgical work and engineering work that will further improve the positive PEA. "We look forward to working with Coeur's technical team as we continue to advance the metallurgical and engineering facets of the Klaza project," said Rockhaven President and CEO Matt Turner.

Golden Predator resumes drilling at 3 Aces

Golden Predator Mining Corp. Feb. 23 announced the start of 2017 drilling at its 3 Aces gold project in southeastern Yukon. This 20,000-meter program will initially focus on the Spades zone and then test other areas of the property. Drilling in the Spades zone will start at the Ace of Spades vein, where previous drilling has encountered high-grade gold at surface and deeper, lower grade stockwork mineralization. Hole 3A16-RC-032, a recent hole that tapped both of these zones, cut 7.54 meters of 32.86 grams per metric ton gold from a depth of 16.76 meters and 47.33 meters of low-grade gold in stockwork before encountering a new blind vein at 71.63 meters that returned 3.23 meters of 10.04 g/t gold. Initial drilling of the Jack, Queen, Seven and Three of Spades veins is also planned for the winter program. Due to their higher elevations, follow up drilling at the Clubs and Hearts zones is expected to resume during

see **NORTHERN NEIGHBORS** page 12

• COLUMN

Industry signals reversal in down-cycle

Trends, producers indicate renewal of interest in mining projects in Alaska, elsewhere as miners prepare for 2017 field season

By **CURT FREEMAN**

For Mining News

As the Alaska mining industry prepares for and kicks off exploration, development and production activities for 2017, the question on everyone's lips at the recent Cordilleran Roundup mining convention in Vancouver, B. C., was the same: "Have we seen the bottom of this down cycle?"

While signs of life were seen for short periods during the 2008 to 2015 period, the reality was an overall downward spiral of commodities prices and global demand. However, in a recent edition of Casey Research's "International Speculator", Research Analyst Laurynas Vegys painted a very encouraging picture, starting in 2016. As quarterly production figures from places like Red Dog clearly indicate, commodities prices have been on the rise for nearly a year, with varying degrees of price appreciation for gold, silver, copper, lead, zinc, aluminum, iron, nickel and tin. Taken in total for 2016, commodities prices broke a six-year downward spiral, recovering an impressive 28 percent since the beginning of 2015. Much of this price appreciation can be attributed to a stabilization of the Chinese economy, combined with rising interest rates, a weaker U.S. dollar and real growth in economies in Europe, Southeast Asia and Africa. Unfortunately, this all sounds like the schoolteacher talking in a Charlie Brown cartoon until it is put into context with something tangible, if not measurable. For me, it was the fact that technical representatives from mid-tier and major producers made no attempt to hide their presence or interest in acquiring new projects of merit at the recent Cordilleran Roundup convention.

Representatives of these companies normally stealth in and out of such conventions and then follow up on things they clandestinely found interesting. Not so at this year's Cordilleran Roundup. Virtually without exception, producing companies openly and aggressively vetted projects, including those in Alaska, and invited property owners to "show me the beef." So, although predicting the future, using statistics from the past, is an exercise fraught with danger, real-time evidence tells me that once again, the game is afoot!

Western Alaska

TECK RESOURCES LTD. and partner **NANA REGIONAL CORP.** reported fourth quarter and year-end 2016 results from operation of the Red Dog Mine in Northwest Alaska. Zinc production rose 7 percent in the fourth quarter compared with 2015 production. This was partially offset by lower grades and recoveries. Lead production, meanwhile, declined by 4 percent, primarily due to lower lead grades. In the fourth quarter, Red Dog produced 124,700 metric tons of zinc in concentrate and for the entire year, 583,000 metric tons of zinc in concentrate. Zinc ore grades improved slightly for the year, climbing to 17.2 percent, while mill recoveries held steady at 84.7

The author

The author Curt Freeman, CPG #6901, is a well-known geologist who lives in Fairbanks. He prepared this column



CURT FREEMAN

Feb. 25. Freeman can be reached by mail at P.O. Box 80268, Fairbanks, AK 99708. His work phone number at Avalon Development is (907) 457-5159 and his fax is (907) 455-8069. His email is avalon@alaska.net and his website is www.avalonalaska.com.

percent. The mine also produced 35,300 metric tons of lead in concentrate during the final three months of the year and 122,300 metric tons of lead in concentrate for all of 2016. The lead ore grade for the year increased slightly to 4.9 percent, while mill recoveries decreased to 56 percent. Operating costs at the mine also decreased by US\$5 million in 2016 as a result of lower diesel costs and lower expendable supplies costs. Gross operating profit for the fourth quarter totaled US\$288 million, compared with US\$149 million in 2015. Gross operating profit for 2016 also rose to US\$668 million, compared with US\$537 million a year earlier. Mill throughput for 2016 jumped slightly to 4.25 million metric tons due, in part, to an extended annual mill maintenance shutdown that adversely affected production in 2015. Red Dog paid royalties in 2016 of US\$282 million, up sharply from US\$178 million in a comparable outlay in the year-previous period. The mine's production of contained metal in 2017 is expected to range from 545,000 to 565,000 metric tons of zinc and 110,000 to 115,000 metric tons of lead. From 2018 to 2020, annual production at Red Dog is expected to range from 500,000 to 525,000 metric tons of zinc and 85,000 to 115,000 metric tons of lead.

GRAPHITE ONE RESOURCES

released the results of its preliminary economic assessment for its Graphite Creek project on the Seward Peninsula. The PEA indicated planned operations would have a pre-tax net present value of US\$1.037 billion using a 10 percent discount rate, with an internal rate of return on capital of 27 percent. On a post-tax basis, the NPV is projected at US\$616 million using a 10 percent discount rate, with an IRR of 22 percent. Annual production of coated spherical graphite and other graphite specialty materials from the deposit is projected to total 55,350 metric tons when full production is achieved in year 6. At full production rates, Graphite Creek has a minimum of 40 years of indicated and inferred resources, grading 7 percent carbon as graphite already outlined. Payback on investment would be four years at a mining rate of 1 million metric tons per year, grading 7 percent carbon as graphite. As might be expected,

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changes in the market price of graphite had the largest impact on operational economics. Following immediately on the heels of the PEA came the announcement that Graphite One had entered into a memorandum of understanding with the Alaska Industrial Development and Export Authority to explore opportunities to collaborate on the development of the project. The primary areas of focus to be examined include: exploration of opportunities to maximize job creation and economic development via the project; facilitation of project permitting and development of a framework for community and stakeholder dialogue; and exploration of options and opportunities for AIDEA to participate in infrastructure funding of project facilities related to the project. AIDEA has provided the company with a list of potential sites in Alaska to evaluate whether they might satisfy some or all of the relevant development and operating criteria.

NORTHERN DYNASTY MINERALS LTD. and its Pebble copper-molybdenum-gold project made news again this month, primarily in refuting potentially damaging information disseminated by Kerrisdale Capital Management LLC, an entity which made a series of apparently inaccurate statements regarding the project and the company. Behind the scenes, Northern Dynasty's public shares have outperformed the broader base metals market since the November election of President Donald Trump. At the same time, Kerrisdale apparently holds or has held short positions in Northern Dynasty's shares, positions which benefit Kerrisdale if the price of Northern Dynasty's stock declines. As Northern Dynasty pointed out, "short selling" is the practice of selling borrowed shares and subsequently repurchasing them. In the event of an interim price decline, the short seller will profit, since the cost of repurchase will be less than the proceeds received upon the initial short sale. If you think this is a bit murky, read Northern Dynasty's news release of Feb. 17, 2017, then look into the diabolically clever mechanism of short sales, and things will look clearer. While these developments were taking place, the U.S. House Committee on Science, Space and Technology called on the new Administrator of the U. S.

Environmental Protection Agency to rescind the federal agency's 2014 regulatory action under Section 404(c) of the Clean Water Act to pre-emptively veto the Pebble project. Stay tuned!

NOVAGOLD RESOURCES INC. released its year-end financial results and project update for its flagship Donlin gold project, owned 50 percent with Barrick Gold Corp. Major milestones for 2016 include material advancement of the permitting and technical work at the project, including completion of a six-month public comment period on the draft EIS completed by the U. S. Army Corps of Engineers, completion of public working sessions attended by all cooperating agencies to address comments on key topics and how to address them in the final EIS, which is expected to be completed in early 2018. Other permitting applications and submissions have been concurrently advanced with state and federal agencies. The partners also continue optimization efforts designed to enhance the value of the project and reduce initial capital expenditures. The partners anticipate spending \$20 million in 2017 to advance the project.

REDSTAR GOLD CORP. reported

2017 exploration plans for its Unga gold project near Sand Point. Plans include an initial 5,000 meters of diamond drilling during the spring program focused on step-out drill holes to the southwest of the Shumagin zone. Previous work at Shumagin indicates that high-grade gold-silver mineralization occurs along roughly 950 meters of tested strike length to a vertical depth of at least 330 meters. Follow-up drilling is planned in 2017 at Shumagin and other targets, based on spring drilling results. The company also plans to conduct a series of ground-based geophysical orientation surveys. Follow-up geophysical work is planned, pending evaluation of the most effective tool for targeting additional blind, structurally-controlled gold-bearing breccia bodies localized along structures to the southwest towards Orange Mountain. The company is also planning to conduct a preliminary metallurgical assessment of gold-silver mineralization hosted in the Shumagin zone. The metallurgical testing will include bulk mineral analysis, coarse gold particle studies, grind calibrations, gravity concentration testing, cyanide leach performance testing and flotation tests.

Interior Alaska

KINROSS GOLD CORP. reported fourth quarter and year-end 2016 results from its Fort Knox Mine near Fairbanks. The mine produced 409,844 ounces of gold at a cost of \$741 per ounce in 2016 versus 401,553 oz gold at a cost of \$629 per ounce a year earlier. During the fourth quarter of last years, the mill processed 3,235,000 metric tons of ore grading 0.79 grams per metric ton gold. Mill recoveries averaged 83 percent for the quarter. During the fourth quarter, the mine placed 7,226,000 metric tons of ore grading 0.28 g/t gold on the valley leach facility. The mine reported record production from the heap leach, along with higher grades for both mill and heap leach ore during the fourth quarter. The mine also announced year-end revised resource estimates, including proven and probable reserves of 104,689,000 metric tons, grading 0.40 g/t gold (1,506,000 oz). Measured and indicated resources at the mine total 95,024,000 metric tons grading 0.50 g/t gold (1,440,000 oz). The inferred mineral resource equaled 13,036,000 metric tons grading 0.50 g/t gold (193,000 oz). The company indicated the exploration drilling of the East and South Wall of the existing pit returned positive results and anticipation of additions to the inferred resource during 2017.

INTERNATIONAL TOWER HILL MINES said it approved a US\$6.3 million 2017 budget for its flagship Livengood gold project. The company also indicated that it completed a US\$14.7 million acquisition of certain mining claims and related rights in the vicinity of the deposit. The 2017 work program is designed to follow up on improvements announced with the Oct. 24, 2016 prefeasibility study. Efforts will focus on improving the mineralization and alteration models used to support the resource block model; evaluating alternative block models for production schedule opportunities; and completing several phases of metallurgical work to better define and optimize the flowsheet and recovery parameters. The 2017 work program has been specifically designed to target those aspects of the project that could deliver the highest net present value increase for the least expenditure. And last but not least, the company reported that it has appointed Karl Hanneman as its chief executive officer.

Alaska Range

MIRANDA GOLD CORP. reported that its joint venture partner and operator Gold Torrent Inc. has secured financing to put the Lucky Shot gold project into production with an intended startup date of December 2018. At a 5 g/t gold cut-off, measured and indicated mineral resources at the project stand at 121,500 oz of gold contained in 206,500 metric tons grading an average of 18.3 g/t gold. An additional 35,150 oz of gold contained in 59,000 metric tons that averaged 18.5 g/t gold is classified as inferred mineral resources. Last summer's preliminary feasibility study laid out a mine plan and cost estimate with annual gold production of about 25,000 oz of gold per year at an underground mining rate of 200 metric tons per day. The plan includes 87,612 oz of gold contained in 174,500 metric tons at a grade of 15.6 g/t gold in the proven and probable reserve categories. Historic milling achieved 89 percent gold recovery with gravity processing alone, and recent metallurgical work shows gravity-only milling should be sufficient for acceptable gold recoveries. All-in sustaining costs are estimated at US\$675 per ounce. Gold on the Lucky Shot project is found in low-sulfide, mesothermal quartz veins within an east-west, shallow, north-dipping, shear zone. Historical records, geologic evidence, and recent drilling indicate that quartz veins plunge at about 30 degrees to depth. An exploration drift below the level of historic mining cuts the vein and indicates open extensions of mineralization to depth. Recent exploration suggests the vein system at Lucky Shot may extend over 2.5 kilometers, or about 1.5 miles to the southeast where the Bullion Mountain Mine attained historic production of 77,000 oz of gold.

Southeast Alaska

HECLA MINING COMPANY announced yearend 2016 production results from the Greens Creek Mine on Admiralty Island. Total cash cost per ounce of silver produced for the year dipped to US\$3.84 per ounce, down from US\$3.91/oz in 2015. The average grade of ore mined during the year was 14.55 oz/ton silver, up significantly from the average grade one year earlier of 13.50 oz/t. In 2016, the mine produced a record 9,253,543 oz silver, 53,912 oz gold, 20,596 short tons of lead and 57,729 short tons of zinc. Greens Creek's 2016 silver output was the highest annual production achieved since Hecla acquired 100 percent ownership of the mine in 2008. The mill operated at an average of 2,229 tpd in 2016. The mine is forecasting 2017 production of 7.4 million to 8 million oz silver and 54,000 to 60,000 oz gold at a cash cost of \$2.50/oz silver-equivalent. On the exploration front, Hecla had a stellar year, reporting gold and silver reserves remained basically unchanged over year-end 2015 levels, despite milling 815,637 tons of ore containing 11.9 million oz

silver and 79,150 oz gold. Reserves increased for the 9A and NWW zones where roughly 8.3 million oz silver and 46,500 oz gold were added. Measured and indicated resources increased with additions in the 9A, NWW, SW, Gallagher zones, and the newly established Upper Plate resource. Inferred resources decreased by about 5 percent for silver and gold overall due to conversion to reserves and indicated resources from the NWW Zone. All other zones, except 200 South, showed increases in inferred gold and silver resources. Exploration drilling was concentrated on the Gallagher Zone and the Mine Syncline, a new exploration target area where the mine contact has been identified. Drilling of the southern extension of the NWW Zone continues to define mineralization along both the limbs and nose of the fold. Mineralization is represented by multiple distinct bands of massive sulfide mineralization in proximity to the mine contact. Assay results include 45.4 oz/t silver, 0.20 oz/t gold, 19.0 percent zinc, and 10.3 percent lead over 18.6 feet and 51.7 oz/t silver, 0.20 oz /t gold, 11.2 percent zinc, and 4.8 percent lead over 10.0 feet. Drilling also targeted the Upper Southwest Zone (USW) around previously mined levels and identified mineralization that extends down to the upper limb of the NWW. Assay results of the USW include 46.8 oz /t silver, 0.03 oz /t gold, 10.9 percent zinc, and 6.1 percent lead over 10.2 feet. The company also reported year-end 2016 reserves and resources for the mine, including proven and probable reserves of 7.594 million short tons grading 11.7 oz /t silver, 0.09 oz /t gold per ton, 2.9 percent lead and 7.6 percent zinc. In addition, the mine contains measured and indicated resources of 1,785,000 tons of indicated resources, grading 10.8 oz /t silver, 0.09 oz /t gold, 3.1 percent lead and 7.8 percent zinc. The mine also reported inferred resources of 3,397,000 tons, grading 11.9 oz /t silver, 0.08 oz of gold, 2.9 percent lead and 7.2 percent zinc. If you add up the silver in all resource categories, the mine is carrying over 148 million oz of silver in resource.

COEUR MINING, INC. announced updated fourth-quarter and year-end 2016 production results from its Kensington gold mine near Juneau. Fourth-quarter production climbed to 33,688 oz gold, up significantly from the 26,459 oz gold produced in the year-previous period. During the fourth quarter, the mine processed 163,410 tons of ore grading 0.22 oz /t gold. Gold recovery averaged 94.4 percent. Average cash costs for the quarter totaled US\$801 per oz. For 2016, production totaled 124,331 oz gold, down slightly from 126,266 oz gold produced during the same period a year ago. For 2016, the mine processed 620,209 tons of ore, grading 0.21 oz/t gold. Average recovery was 94.7 percent. Average cash costs for the year were


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US\$790 per oz. The company indicated that accelerated 2017 surface and underground exploration would be focused at Kensington Main as well as at Jualin, Raven, and several new veins discovered through surface-sampling programs. Estimated 2017 total production from Kensington is 120,000 to 125,000 oz gold. The company also announced year-end resources and reserves at the mine, including proven and probable reserves at Kensington of 2,616,000 short tons grading 0.190 oz /t gold per ton (497,000 oz) and measured and indicated resources of 3,125,000 tons grading 0.279 oz /t gold per ton (871,000 oz). Total inferred resources for Kensington

are 1,579,000 tons grading 0.276 oz /t gold (436,000 oz).

CONSTANTINE METAL RESOURCES LTD. reported that **DOWA METALS & MINING CO. LTD.**, its partner at the Palmer volcanogenic massive sulfide project, has completed its US\$22 million earn-in and has exercised its option to participate as a joint venture partner on the project. Constantine will own 51 percent participating interest and Dowa 49 percent participating interest in the newly formed joint venture. Some US\$2 million in unspent funds will form the starting cash balance of the joint venture. Current resource estimates at the project include an inferred resource of 8.1 million metric tons grading 1.41 percent copper, 5.25 percent zinc, 0.32 g/t gold and 31.7 g/t silver. ●

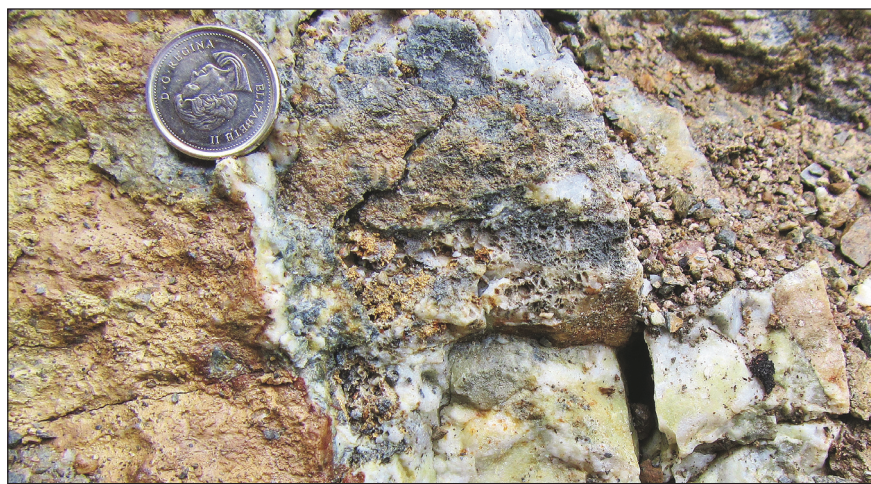
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Surface sampling identified abundant visible gold in the Jack of Spades vein, one of the targets of Golden Predator's winter drill program at the 3 Aces gold property in Southeastern Yukon.

GOLDEN PREDATOR MINING CORP.

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NORTHERN NEIGHBORS

the summer months.

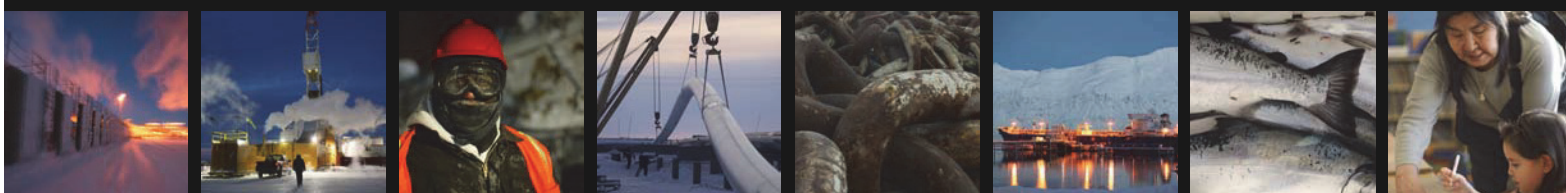
Sabina resubmits Back River to review board

Sabina Gold & Silver Corp. Feb. 27 reported that the Nunavut Impact Review Board has accepted and begun reviewing an addendum to the final environmental impact statement for the Back River gold project. Sabina submitted the original environmental impact statement for a 3,000-metric-ton-per-day mine focused on Goose, one of several properties that comprise the Back River project, for permitting late in 2015. In June, the Nunavut Impact Review Board recommended to the Minister of Indigenous and Northern Affairs Canada not to advance the project through permitting.

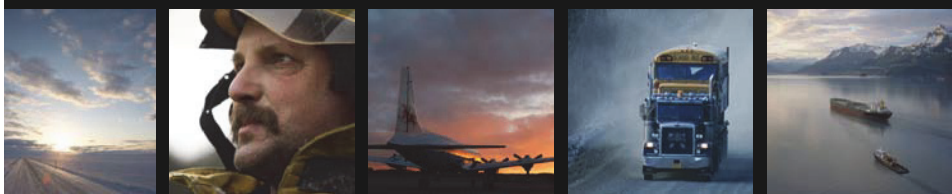
Sabina submitted the original environmental impact statement for a 3,000-metric-ton-per-day mine focused on Goose, one of several properties that comprise the Back River project, for permitting late in 2015.

After reviewing the recommendation, the federal regulators returned the Back River project to NIRB for further consideration. Answering a call for added information, Sabina submitted the addendum in mid-February. "We have focused on the concerns outlined in the NIRB report from last June and believe we will be able to present relevant and new information to address the NIRB's high level of caution with relation to project impacts in Nunavut," said Sabina President and CEO Bruce McLeod. ●

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EXPLORATION & PRODUCTION

Alaska Oil and Gas Conversation Commission report: February 2017

•ON JAN. 25, the AOGCC approved (Area Injection Order No. 24B.005 Amended) a request from BP Exploration (Alaska) Inc. to amend an existing area injection order and continue water-alternating-gas injections at the Prudhoe Bay Unit No. L-105 well. A Mechanical Integrity Test in January convinced the AOGCC of the integrity of the well.

•ON FEB. 14, the AOGCC approved (Area Injection Order No. 3B.006) a request from BP to continue water alternating gas injection on the Prudhoe Bay Unit No. Z-19A well.

BP operated the well with an outer annulus repressurization from May 2007 to December 2011 but shut-in the well after determining that it could no longer be managed by bleeds.

Outer annulus pressures have since stabilized. Subsequent analysis convinced the AOGCC that the well could operate safely. The AOGCC is requiring the company to submit the well for testing after injections are resumed and pressure stabilizes.

•ON FEB. 14, as reported in the Feb. 19, 2017, issue of Petroleum News, the AOGCC fined the Glacier Oil & Gas Corp. subsidiary Cook Inlet Energy LLC \$446,000 for violations related to drilling at the Sword No. 1 well at the West McArthur River unit.

•ON FEB. 15, the AOGCC approved (Area Injection Order No. 3B.007) a request from BP to continue water only injections at the Prudhoe Bay Unit No. R-02 well. The company completed a cement packer squeeze in November 2016 to alleviate a tubing by inner annulus pressure communication. The well passed an integrity test in December. But in January, BP reported a potential Inner Annulus repressurization and started a new round of testing of the well. The tests convinced the AOGCC of the integrity of the well.

•ON FEB. 16, the AOGCC approved (Area Injection Order No. 4G.004) a request from BP to continue water only injections at the Prudhoe Bay Unit No. 11-07 well. BP reported a potential inner annulus by outer annulus pressure communication in January 2017. But subsequent testing convinced the AOGCC of the integrity of the well.

•ON FEB. 16, the AOGCC approved (Area Injection Order No. 4G.005) a request from BP to continue water alternating gas injection at the Prudhoe Bay Unit PTM P1-21 well.

BPXA reported a potential production casing leak in the well at 7,652 feet and performed a coil tubing cement job of the inner annulus in January 2017. The cement job, though, kept the well from meeting the requirement that an injection well be equipped with a packer set not more than 200 feet measured depth above the top of the perforations. The construction standard is less stringent when freshwater is not at risk of contamination.

BP passed two non-state witness tests, which convinced the AOGCC to allow injections to proceed. The company will complete additional tests after starting injections.

•ON FEB. 22, the AOGCC approved (Area Injection Order No. 30.008) a request from ConocoPhillips to continue water injections at the Colville River Unit CD3-108 well.

The company reported a potential Tubing by Inner Annulus pressure communication on Dec. 31, 2016, while the well was on miscible gas injection. A mechanical integrity test and water alternating gas trial convinced the AOGCC of the integrity of the well.

•ON FEB. 28, the AOGCC approved (Docket OTH-16-013, Other Order 115) a request from Cook Inlet Energy to use multiphase flow meters at the West McArthur River unit and the Redoubt unit, as part of efforts to decommission the West McArthur River unit processing facility and shift activity in the area to the Kustatan Production Facility.

•The AOGCC has tentatively scheduled a meeting for March 14 to consider a request from ConocoPhillips to expand Conservation Order 443B and Area Injection Order 18C to allow for the westward expansion of the Nanuq Kuparuk sands at the Alpine Oil Pool.

•The AOGCC has tentatively scheduled a meeting for April 6 to consider a request from Furie Operating Alaska Inc. for an exemption from spacing requirements to drill the Kitchen Lights Unit No. A-4 natural gas development well at the Kitchen Lights unit.

—ERIC LIDJI

GOVERNMENT

Court denies bearded seal en banc hearing

The U.S. Court of Appeals for the 9th Circuit has denied a request for an en banc hearing in the appeal against the National Marine Fisheries Service's listing of the Beringia population of bearded seals as threatened under the terms of the Endangered Species Act. In October a panel of three 9th Circuit judges upheld the listing of the seals by overturning an earlier decision by the federal District Court in Alaska that the listing had been arbitrary and capricious.

Following the 9th Circuit ruling the appellees in the case had requested an en banc rehearing, a move that would have involved all of the judges in the 9th Circuit Court reviewing the case, and not just the panel of three judges that had issued the October ruling. Apparently the court judges expressed no interest in the en banc option.

The listing of the bearded seals has come as one of a number of wildlife listings related to the projected loss of Arctic sea ice as a consequence of global warming. Bearded seals live around the sea ice, which they use for resting, feeding and rearing their young. Worried about the potential impact of the listing on economic activity in the Arctic and questioning the listing of an apparently healthy species based on long-term climate projections, several entities, including the Alaska Oil and Gas Association, the American Petroleum Institute, the state of Alaska, the North Slope Borough and other local government and Alaska Native organizations appealed the decision in District Court.

In general, in an appeal of this type, the courts tend to defer to the technical expertise of the agency involved but seek to determine whether the agency's decision was made in a lawful manner. In this case the District Court thought that the agency had insufficient data on which to base its listing decision. The 9th Circuit judges disagreed, saying that the Fisheries Service had provided a reasonable explanation of its use of complex scientific data.

—ALAN BAILEY



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Hilcorp continues gas leak assessment

Evaluating Middle Ground Shoal fuel gas line repair options while monitoring situation and waiting for sea ice conditions to ease

By **ALAN BAILEY**
Petroleum News

Hilcorp Alaska is continuing to monitor the situation in preparation for the repair of a leaking subsea pipeline that supplies fuel gas for its Cook Inlet Middle Ground Shoal field. Response efforts must address the leak while also maintaining the safety of the public, ensuring the safety of Hilcorp personnel and protecting the environment, said company spokeswoman Lori Nelson in a Feb. 24 press release.

The leak was discovered on Feb. 7 by a Hilcorp helicopter at a location between Nikiski on the Kenai Peninsula and the offshore field's Platform A. The pipeline, which lies in a water depth of 80 feet, supplies dry processed fuel gas consisting of 98.67 percent methane to the A, C, Dillon and Baker platforms. The gas is

used for power generation on the platforms, Nelson said.

Waiting for ice to clear

Currently sea ice conditions in Cook Inlet are preventing divers from safely inspecting and repairing the line. Hilcorp has evaluated the repair options and has determined that the use of divers is the best available approach to safely fixing the leak, Nelson said. The company proposes using the divers once ice conditions enable repair operations to begin safely. In readiness for the repairs, Hilcorp has mobilized equipment and briefed personnel, Nelson said.

In the interim, Hilcorp has lowered the pressure in the gas line by minimizing the use of the fuel gas. This has involved shutting down waterflood operations in the field and cutting the use of some other

non-essential equipment and activities, Nelson said. The company continues to evaluate other means whereby the line pressure could be further reduced. However, it is necessary to maintain a positive gas pressure in the line, to prevent the infiltration of seawater and the possibility of the discharge of any remnant oil in the line. Apparently, the line had previously been used for the transportation of crude oil.

The National Oceanic and Atmospheric Administration has performed calculations that indicate that the volume of gas being released to the atmosphere likely represents a low risk for humans, Nelson said.

Environmental impacts

The other concern is the possible impact of the leak on the natural environment — Hilcorp has been working with environmental experts to evaluate the leak's potential effects. Preliminary modeling of the dissolving of the methane in the seawater estimates methane concentrations in the water around one-five-hun-

dreth of the level at which the Alaska Department of Environmental Conservation has indicated fish would be harmed, Nelson said.

Using peer-reviewed literature, including studies performed by federal agencies and a recent study relating to the Cook Inlet, environmental consultants have also concluded that the potential impact of the leak on marine life would be minimal, based on the volume of gas being released, Nelson said.

Hilcorp is developing a water monitoring plan for the area impacted by the leak. This plan includes an evaluation of the safety of the personnel who will implement the plan — the plan will be activated when the personnel safety can be assured, Nelson said.

Hilcorp continues to work with the regulatory agencies on information requests regarding the leak and will provide additional information as it becomes available, Nelson said. ●

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at abailey@petroleumnews.com

EXPLORATION & PRODUCTION

Freeman named Exxon's US government relations manager

Former Alaska resident Ken Freeman has a new position with ExxonMobil at corporate headquarters in Irving, Texas. He has been appointed U.S. government relations manager for the mega-major oil company.

In 2002, Freeman, then 32, first went to work for ExxonMobil for four years in Anchorage as public and government affairs manager for Alaska.

Before going to work for ExxonMobil in Alaska, Freeman served as former Gov. Tony Knowles' special assistant for business and gas line development.

Prior to that, Freeman held two positions with the Resource Development Council of Alaska, serving first as projects coordinator and then as executive director.

Between positions at RDC, he worked as press secretary and legislative assistant to the House majority caucus in the Alaska Legislature.

In 2006, ExxonMobil promoted Freeman to one-year stints as public and government affairs advisor for U.S. production operations and then ExxonMobil Gas and Power Co., followed by public and government affairs manager for the company's Torrance Refinery.

Next, he served almost three and a half years as ExxonMobil's public and government affairs manager for its Papua New Guinea operations, followed by two stints at Spring, Texas, first as Asia Pacific regional production P&GA manager and then as Asia Pacific P&GA regional manager before being appointed U.S. government relations manager in February.

A graduate of Oregon State University, with a major in communications, Freeman also holds a masters' degree in public administration from Portland State University.



In 2002, Ken Freeman, age 32, first went to work for ExxonMobil.

—KAY CASHMAN

• EXPLORATION & PRODUCTION

Drilling outlook brightens in Canada

By **GARY PARK**

For Petroleum News

Encouraged by "stabilizing" crude oil prices, Canada's oil services industry has given a sharp boost to its drilling forecast for 2017, targeting 5,150 wells, up 975 wells from its original prediction only three months ago.

The Petroleum Services Association of Canada said crude oil and natural gas liquids will account for 80 percent of its new goal, with natural gas covering the remaining 20 percent.

If the revised total is achieved, Canada will tally 1,200 more wells than last year.

PSAC President Mark Salkeld said that with West Texas Intermediate prices settling over US\$50 per barrel so far this year conventional producers in Alberta

and Saskatchewan "will be spending more dollars in drilling and are already hiring rigs."

He said activity will be concentrated in the Cardium and Duvernay plays in the Western Canada Sedimentary basin, dominated by the Rocky Mountain House, Wapiti and Sundre areas of western Alberta.

Salkeld said an average 355 rigs were active during January, normally the peak drilling season, compared with 250 rigs in the same month of 2016.

PSAC said its forecast assumed WTI prices will average US\$52.50 in 2017, while AECO trading hub prices will average C\$3 per million British thermal units.

Alberta is expected to lead the provin-

see **DRILLING OUTLOOK** page 15

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• EXPLORATION & PRODUCTION

What to do about idle Alaska wells

AOGCC plans to work with oil companies to identify which unused wells have no future potential and should be plugged, abandoned

By **ALAN BAILEY**
Petroleum News

The Alaska Oil and Gas Conservation Commission is starting to address some worries over the large number of oil and gas wells in the state that are unused but that have not been plugged and abandoned. Some of these wells may have future, perhaps unknown, value. Others, on the other hand, could usefully be closed in before they age to a point of becoming a safety or environmental hazard.

Idle wells

During a meeting of the commission on March 1 Dave Roby, an AOGCC senior reservoir engineer, reviewed the situation regarding what the commission terms “idle wells,” wells which have not been used for production or injection during the previous calendar year but which have an active status as an oil or gas producer, or as some type of injector. AOGCC is concerned about these wells because of the possibility of an idle well becoming a problem well if it is not properly monitored and maintained, and because of the possibility of a significant liability arising if an operator cannot deal with an obsolete well in a timely fashion, Roby said.

Plugging and abandoning a well can be a very expensive undertaking.

Increased then stabilized

Over the past decade the number of idle wells has increased from about 500 to a little over 700, Roby said. But that increase took place in the first half of the

Under AOGCC regulations operators must report on idle wells each year.

decade, with the number of idle wells stabilizing at between 700 and 740 over the past five years. The reason for that recent stability is unknown but may related to an uptick in the number of well workovers that have been conducted by companies such as BP and Hilcorp.

Under AOGCC regulations operators must report on idle wells each year. The latest idle well census, coming from the operator reports for 2015, indicates that there were 736 wells that had remained shut-in for the whole of that year, Roby said. Of these, 468 were producers, 264 were injectors and four were water supply wells, he said. The well that had been shut-in the longest, a well on one of the Cook Inlet offshore platforms, had been inactive since June 1978. At least 55 of the wells had been idle since before 2000, Roby said.

The median shut-in date was approximately January 2012, meaning that about 360 of the wells had been shut-in for more than four years.

The well operators have indicated that future plans for about 250 idle wells can be some variant of no plan, no future utility or under evaluation, Roby said. About 10 wells have been flagged for plugging and abandonment, he said.

AOGCC proposals

AOGCC is considering revising the requirements for idle wells and, as a first step, requested some additional information about the wells when it sent out its request

for the 2016 idle wells report, Roby said. In particular, the commission has asked for reasons for the well being idle and for condition codes for the wells. Other possible steps include revising the idle well regulations and having meetings with the operators to discuss how to deal with the wells, he said.

Roby said that, while there is clearly an issue of not wanting to plug wells that may have some future application, there appear to be about 250 wells that the companies say have no future utility.

Commission Chair Cathy Foerster said that the commission has already started a process with BP, to identify a handful of wells that the company can agree need to be plugged, so that the company can commit to plugging a certain number of wells this year. The commission wants to work cooperatively with the operators in dealing with the idle well issue and sees the BP exercise as a means of helping figure out a workable process, Foerster said.

The commission will probably hold a couple of meetings with the operators, to share their thoughts on how best to proceed: how to identify which wells to plug, how to figure out which wells may have future utility, Foerster said.

Commissioner Hollis French wondered whether it would be useful to set targets for the maximum number of idle wells each year going forward. Maintaining a target of, say, 500 wells would involve plugging and abandoning many wells each year. But, without targets, the number of idle wells might climb to problematic levels, he suggested. ●

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GOVERNMENT

Trump orders review of WOTUS regs

President Trump has ordered a review of new waters of the United States, or WOTUS, regulations introduced by the Environmental Protection Agency under the Obama administration. The president has told the EPA administrator and the assistant secretary of the army for public works to review the final rule, “showing due regard of the roles of Congress and the states under the constitution,” and particularly considering the opinion of Supreme Court Justice Scalia in a 2006 court case involving the interpretation of WOTUS rules.

Multiple states have previously appealed the regulations through the court system and those appeals have yet to be resolved.

The rule in question defines the scope of what the federal administration views as U.S. waters, subject to federal jurisdiction and federal permitting. The rule is controversial

because it raises issues regarding the extent of federal jurisdiction within states and the relative rights of federal and state authorities to manage lands within the borders of the United States. The situation is particularly touchy in Alaska because of the state’s myriad rivers, streams, lakes and wetlands.



DONALD TRUMP

Multiple states have previously appealed the regulations through the court system and those appeals have yet to be resolved.

Federal jurisdiction over waterways is simple in principle in that most people agree that the federal government can regulate navigable waters that are capable of supporting interstate commerce. But where do the waters of the U.S. end and local or state waters begin? Under the EPA rule, tributaries to the more obvious U.S. water bodies, as well as wetlands adjacent to these tributaries and navigable waters impounded behind dams are all subject to federal jurisdiction.

Alaska lawmakers have expressed some jubilation at Trump’s action, given their prevailing opinions that the EPA regulations infringe unacceptably on Alaska’s rights to manage its own lands.

“Protecting our water and the environment are critical, but all the previous administration did with this rule was expand its own bureaucracy,” said Gov. Bill Walker in response to the president’s order. “While in Washington, D.C. this week, I had the opportunity to meet with new EPA Administrator Scott Pruitt. I am confident Administrator Pruitt recognizes Alaska’s uniqueness, and hope the new administration develops a replacement rule that truly respects the rights of all states.”

Any proposal to change or rescind the rule, or issue a new rule, would presumably need to go through the mandated federal rule making process, including a public review.

—ALAN BAILEY

• FINANCE & ECONOMY

Ruggiero: Less complicated taxation system better

Consultant recommends stable petroleum system, profit-based, not price-based, with NOLs applied only against production

By **KRISTEN NELSON**
Petroleum News

If Alaska’s petroleum taxation system were simplified it would make audits easier as well as making paperwork more straightforward for companies paying production taxes in the state.

Such a system would be based on profits not prices and taxes would be bracketed, as are federal income taxes, reducing paperwork and issues at audit.

That was the main takeaway from

what the House Resources Committee has been hearing from Rich Ruggiero of Castle Gap Advisors, a consultant hired by the Legislature to advise on the state’s fiscal system.

The committee has been considering House Bill 111 which addresses credits and would increase taxes by raising the minimum tax and eliminating deductions which can be taken to reduce the minimum tax.

Resources co-Chair Geran Tarr, D-see **TAX SYSTEM** page 19

continued from page 14

DRILLING OUTLOOK

cial totals at 2,706 wells (up 806 wells from the November forecast), followed by Saskatchewan at 1,985 (up 45 wells), British Columbia at 367 (up 87 wells) and Manitoba at 73 (down one well). The remaining 19 wells will be drilled in Eastern Canada.

Salkeld noted that challenges related to the two-year industry downturn “took their toll on the oilfield services sector with the effect rippling across all the supporting industries.”

“It took us many years to recover from a similar but less impactful downturn in the early 1980s and it will be the same again now.”

He said the cost savings squeezed from the services sector since 2014 “are not sustainable, but that will be corrected

as activity and the demand for people and equipment increases.”

Salkeld said that despite an equipment sell-off and payroll cuts there is still an oversupply that acts as a drag on the service sector.

He said that even though producers are working “they’re making money on their margins and we’re not getting our rates back up as we’d like to.”

Although it’s a year since the Alberta government revised oil and gas royalties and introduced a simplified regime designed to encourage producers to cut costs and become more efficient, Dave Mowat, chief executive officer of ATB Financial, said he now hopes the government will “get out of the way,” leaving the industry to rehire and work on innovations. ●

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Fluor awarded contract for project in Canada

Fluor Corp. recently announced that it has signed an agreement with JGC America Inc. to provide construction-related support to the front-end engineering and design services for the Woodfibre Liquefied Natural Gas project in the District of Squamish near Vancouver, British Columbia, Canada. Fluor booked the undisclosed contract value in the fourth quarter of 2016.

Under the subcontract, Fluor will provide construction planning and design services to support the FEED package and engineering, procurement and construction proposal devel-

opment. JGC is a FEED contractor for the proposed 2.1 million tonnes-per-year natural gas Woodfibre liquefaction plant and export facility.

"With our industry-leading modular design and construction approach, Fluor will work closely with JGC to develop a project execution strategy that delivers capital efficiency and schedule certainty to Woodfibre LNG," said Pierre Bechelany, senior vice president of pipelines and LNG for Fluor. "Leveraging JGC's extensive LNG experience and Fluor's project execution and construction expertise, we look forward to helping Woodfibre LNG advance this project for the community and British Columbia."

The proposed facility will be powered with electricity from BC Hydro, which generates more than 90 percent clean renewable energy and will help create one of the cleanest LNG facilities in the world.

Foss's third Arctic class tug is nearly complete

Foss Maritime has released two time-lapse videos of the construction of the third of three state-of-the-art Arctic class tugs being built at the Rainier, Oregon, shipyard. The tug is expected to enter service later this year.

The tug is ice class D0, meaning the hulls are designed specifically for polar waters and are reinforced to maneuver in ice. Like her sister Arctic class tugs, it complies with the requirements in the ABS guide for building and classing vessels intended to operate in polar waters, including ABS A1 standards, SOLAS and green passport.

The short videos show construction from April of 2016 to January 2017. The first of two videos shows the hull assembly, construction, flip and installation of the bow and stern modules, the installation of one of two Caterpillar C280-8 main engines, the superstructure install, and wheelhouse construction.

A second video shows construction through the transportation of the Hull — which has Nautican's high efficiency nozzle and rudder assembly, driven through a set of Reintjes reduction gears — to Vancouver, Washington, to have a Markey Machinery tow winch installed, before returning to Rainier for her wheelhouse installation.

For more information and to watch the videos visit www.foss.com/shipyards/.



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BIRCH Q&A

have in any sort of financing mechanism a producer might have in coming to Alaska to explore. I personally met a couple of different banking entities who are looking at foreclosure on one operator or another that had relied on those credits as part of their development strategy.

They had been very predictable for some period but they are less tangible today because of the uncertainty. The Legislature funded them but the governor vetoed them. To the extent that those credits are in play, they certainly are not doing what was intended, which was to reimburse for the exploration and development to the benefit of all of Alaskans by making sure all of those resources are located.

Petroleum News: One of the reasons those credits were predictable was because Alaska was in a high-price environment, but the statute always said there was a minimum under a formula. So where does the blame lie if people financing a project haven't completed their due diligence on the project?

Birch: That's a valid point. I think the very flinty eyed bankers in the lot were probably paying attention to that but I think the assumption was — and assumptions are sometimes dangerous — that reimbursement would happen in a more timely manner. I think it's unquestionably an obligation of the state then the question is over what period or timeframe are they going to be realized. I think there is a fair amount of discussion. Actually I would like to see HB 111 divided out. It was characterized as being three or four different pieces, kind of put together. I would like to see the credits discussion broken out and talked about separately. I think that warrants a different debate.

Petroleum News: Almost as a separate bill?

Birch: Just separately, yeah. Then we can have the discussion as to what's our intent and objective. As a mining engineer and having worked in the mining field, I'm used to overriding royalties, but typically you don't have that type of program to induce investment. The genesis of it was — and I think it was well intended — in a higher priced environment the intention was to develop and advance that type of exploration.

Petroleum News: Early on during your first few weeks in office, you mentioned how SB 21 was better than ACES at these prices, something pretty widely accepted. Why do you keep bringing ACES into the picture? Do you gain a sense people want to revert to that?

Birch: The story that I had with ACES, Gov. Palin advanced that. It was Alaska's Clear and Equitable Share. I remember speaking with a state senator who worked on it. At that time, it basically doubled the government take when it went through the legislative process and my question to that senator was, is it still clear and equitable if it doubles it? If the governor says this is clear and equitable and the Legislature says twice that is clear and equitable, it doesn't seem like they would both be clear and equitable.

Once it got through the legislative process, it clearly stepped up the take to where it wasn't good for Alaska and it wasn't doing what the objective would be which was more oil in the pipeline. I think that is where SB 21 — looking at the uptick and looking at the decline curve — and if you look at what's going through TAPS, any uptick is good news for the state. We are pulling our royalty

share out of that.

Petroleum News: When bringing up ACES, were you trying to bring it up as a cautionary tale toward change?

Birch: Anyone who has been here for a long time remembers ELF, PPT and ACES. The fact is we need to value stability in the market. Stability is important; enough already. Leave it stable for maybe a couple of years. Let's have some stability in the market so people who are making investment decisions can say I know what the tax rate is going to be. One of the proposals now is going to a monthly tax rate. Well every one of us is going to be faced with doing our personal income taxes by the 15th of April. What if somebody said whatever you do the 15th of April, by the way, you need to do that every month of the year?

Our current structure for anybody, for business, you do it every 12 months. That's one aspect of HB 111, a book-keeping aspect that layers up the workload. So stability is the watchword here. With SB 21 you've got stability, you've got increased production. Let's let it roll for another year or two. Let's see how it goes. Let's see if we can capture some of that additional investment and engagement on the North Slope and see some of the ConocoPhillips work be productive. Let's see if we can get ANWR open. That's been on the horizon for a long time.

Petroleum News: How do you define stability?

Birch: I think stability means at least having a fixed process, a fixed tax rate if you will for a session or two. A session is two years so I would say if you could provide stability for two or three years and see how it works, then tweak it. If there is something that's grossly in error, you get together and figure out if there is some sort of problem.

Petroleum News: Do you have a concern about Rich Ruggiero being a consultant?

Birch: I would say the jury is still out. I'm waiting to make a judgment call on that. The first out of the shoot, he gave us a slide that ended in 2011. It showed that taxes were increasing. But the slide that Ms. Moriarty presented a couple of days later that was out there, available and Rep. Talerico asked for, showed in a declining market that when oil is plummeting in value, most financial regimes look for incentives that support development. That would have been helpful. Mr. Ruggiero thanked AOGA for presenting that. My sense is that there are 60 people in this building and everybody wants to do the right thing for Alaska. It's a matter of how are you going to get there. We'll get there. It's a matter of figuring out whether it's government's position to decide what's a fair rate of return. I happen to view that you govern with the royalty share and a tax policy in place that invites investment.

Petroleum News: Your approach is a little different from your colleagues who are freshmen. You seem to be offering a lot of your own assessments of what's being discussed. Maybe there is a question, maybe there isn't. Talk about that approach.

Birch: The committee process is all about getting good information in front of the committee members. It's about education and having an understanding of why are we all here. At some point the people on that committee went through their respective caucuses and said I want to be on this committee for this reason. We certainly did that in our House Republican caucus. I'm assuming the same thing went through the discussion on the Democrats side when

they had their organization. The bills that we've seen, we've had number of bills on anti-trapping, we had the Pebble discussion. I had requested that DNR be there because it's on state lands, but they were not permitted to be there. Just the same, my question of the people on that committee — why are you here? What is your objective? Are you trying to develop or manage Alaska's resources to the greatest potential for Alaskans? Let's hope so, but that's an individual question people have to ask on their own.

Petroleum News: What do you think the new administration in D.C. and the GOP-led Congress can mean for the state on the resource development front?

Birch: I'm encouraged by some of the appointments the president has made and have been confirmed in Congress. We get in this wetlands tangle periodically. Alaska has probably more wetlands in our state than the rest of the country probably combined for all I know. It's remarkable that we have to suffer the huge cost and impact from wetlands mitigation. If you're in Boston and look at the Boston Commons, it's all reclaimed wetlands, but it was done hundreds of years ago. Today when you look at the cost of any reasonable project, wetlands is a huge cost piece. I know Sen. (Ted) Stevens at one time proposed something where Alaska would be permitted to develop 2 or 3 percent of its wetlands without a mitigation component.

Petroleum News: So are you optimistic?

Birch: I'm a born optimist. I really am. My father came here in WWII. He was stationed in Adak with the Marine Corps. He started his family here. You don't live in this country and not be an optimist, I think. If you are going to be successful and if you are going to have any potential for our kids, our families, our neighbors and our community, like I said I'm an eternal optimist. I think our best days are ahead of us. I'm excited about the potential. Just having a discussion about ANWR and having it come out of our body. The Legislature passed a resolution that you heard from our senior U.S. senator (Lisa Murkowski) say they are helpful. Sometimes you never know about resolutions and how they are received and how impactful they are. That was nice feedback to hear that it is constructive.

Petroleum News: What were your takeaways from her speech?

Birch: From both of our senators, I think the message was positive. We've got a bright future ahead of us. We need to be competitive. We need to tighten our belts from a government standpoint. We've had the luxury of high oil prices for some number of years. It's enabled our government to grow in a manner that maybe we can't fully afford, so there needs to be some rollback and some attention on the spending side.

One of the examples I like is when I went to work for Alyeska in 1991, there were about 2,200 direct Alyeska employees and about 800 contractors. If you talk to Admiral (Tom) Barrett today that number has about flipped. What they have done is watch their full time numbers go from 2,200 to around 800. The contractors are still there but there are more of them. I think that's what I would like to see the state do: tamp down the non-essential services and figure out where we can reduce the spend there. I think that's the view of those who want to take a look at some of the budget savings. ●

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continued from page 1

EXPANSION DENIED

lion performance bond to guarantee oil production from the area within the next five years and a \$1.5 million “bonus bid replacement payment.”

Mack gave ConocoPhillips 10 days to accept the conditions. The company had yet to provide a response by March 1, according to the Department of Natural Resources.

If ConocoPhillips accepts the conditions, the state would include them in the plan of exploration and plan of development for the expansion area. “Failure to comply with these terms can put the entire unit in default,” Mack wrote, suggesting that the expansion area, if approved, could become a shackle on the third most productive unit in Alaska.

Fastest route

The Department of Natural Resources regularly requires oil and natural gas operators to post performance bonds to backstop their drilling commitments. But bonus bid replacement payments and performance bonds to guarantee production are much rarer.

According to Mack, the unusual ruling was an attempt to get the best deal for the state.

If the state allowed the expansion to proceed, according to the ruling, it would lose the benefit of getting a bonus bid from allowing the leases to expire and being leased anew.

But the administrative process of making the acreage available through a future lease sale is time consuming. Development — and all its assorted financial benefits to the state through royalties and production taxes — could occur more quickly through expansion.

At issue is the speed of development, according to Mack.

In its application, ConocoPhillips discussed its preference for “sequential development” of acreage within the Colville River unit. The company has brought previous Colville River unit satellites into production incrementally, in part to manage processing capacity.

Mack rejected this approach for the expansion acreage, writing, “Conoco may find sequential development advantageous because it reduces cost, but the delay in resource development and the elimination of competition is a cost to the State. Because of temporal discounting, the delay in resource development reduces the value to the State of the eventual production. If the expansion area leases were allowed to expire and the area be offered in a new lease sale, another lessee might develop the expansion area more quickly than Conoco as it develops other resources near the Alpine field.”

If ConocoPhillips pursued “expedited development” of the expansion area, he added, production might come more quickly than under a different lessee. The proposed bonds and the replacement payment are an attempt to guarantee that expedited development.

The ruling would allow ConocoPhillips to add the expansion acreage into the Colville River unit if it commits to drilling an exploration well in the area by May 31, 2017. If the first well is a dry hole, ConocoPhillips would be required to drill a second well by May 31, 2018. The proposed conditions would also require ConocoPhillips to fast-track an oil development program in the expansion acreage in an effort to bring the expansion area into sustained production by May 31, 2022, and provide annual updates along the way.

The state would return the \$2.5 million bond if ConocoPhillips met the drilling deadline and the \$10 million bond if the company met the production deadline. The \$1.5 million payment is meant to compensate the state for theoretical losses from a future lease sale.

Well cancelled

Those drilling commitments already present a com-

plication.

As part of its request to expand the unit, ConocoPhillips had proposed drilling the Putu No. 1 exploration well this winter within the proposed expansion area. The well would have satisfied the proposed work commitment. But ConocoPhillips canceled the program.

“After meeting with leadership from the community of Nuiqsut in December, ConocoPhillips was asked to postpone the Putu exploration drilling program until next winter,” ConocoPhillips spokeswoman Natalie Lowman wrote in a Feb. 22 email. “This decision was a collaborative process with Nuiqsut leaders that recognized the need to balance the drilling opportunity with the needs and support of the community.”

According to the state, though, the decision to delay drilling plans conflicts with earlier assurances from ConocoPhillips. The company previously told the state that it had an active surface use agreement with landowner Kuukpik Corp., according to the ruling.

The state has not seen the surface use agreement, according to the ruling. Whether the existing surface use agreement extends to the proposed expansion area is “a key consideration” for deciding whether to expand the unit, Mack wrote. Failure to secure a surface use agreement is one reason why former operator Brooks Range Petroleum Corp. failed to develop the acreage when it was included in the former Tofkat unit, he added.

In addition to the current surface use agreement between ConocoPhillips and Kuukpik, Mack referenced an earlier 1992 agreement between Arctic Slope Regional Corp. and Kuukpik that also allows for oil and gas activities on the leases. “With multiple agreements in place allowing surface use, Commissioner will not be inclined to consider a need for community engagement as justification for further delays,” Mack wrote.

Asked about the surface use agreement and the delayed exploration well, Lowman told Petroleum News by email on March 1, “ConocoPhillips has a confidential surface use agreement with Kuukpik that allows us access to their land. However the SUA is not a permit to drill and does not eliminate the North Slope Borough permitting process or any other required permits or authorizations. In December we met with leadership from the community of Nuiqsut, and determined that, due to delays in DNR approvals, we would not have adequate time to engage with the local community as part of the standard local permitting process. This decision was a collaborative process with Nuiqsut leaders that recognized the need to balance the drilling opportunity with the needs and support of the community. While we were prepared to drill the well this winter, postponing the exploration program will allow us to work with the community and the North Slope Borough to address their concerns over drilling within three miles of the village.”

Numerous attempts

The ruling extends an already long-standing dispute between the state and the company.

ConocoPhillips initially asked to include the acreage in the Colville River unit back in 2002. The state agreed to the expansion later that year. But the state contracted the acreage out of the unit in 2004 after ConocoPhillips failed to meet a drilling commitment.

In 2016, the state cited this failure to drill in 2004 as a reason for denying the current expansion request. Although the state later reversed that decision, it clearly remains bothered by the earlier lack of performance. In the current ruling, Mack wrote, “Conoco’s past failure to develop this acreage may not be indicative of its willingness and ability to develop it now, but it does demonstrate the ongoing costs to the State as the acreage has changed hands and moved in and out of units for years without development.”

At the time of that initial expansion, the acreage was

known as the Titania prospect. A joint venture operated by Brooks Range Petroleum Corp. subsequently acquired the acreage through a lease sale and began referring to the leases as the Tofkat prospect.

Brooks Range Petroleum Corp. drilled the Tofkat No. 1 well and two sidetracks in early 2008 and encountered hydrocarbons. The company formed the Tofkat unit in late October 2011 and proposed various drilling programs over the years. But the state terminated the unit in late March 2016, after the company failed to drill in the area.

On March 31, 2016, ConocoPhillips asked the state to expand the Colville River unit to include the leases in the former Tofkat unit. The state rejected the application less than a week later, claiming that ConocoPhillips had no working interest in the leases at the time.

The company filed lease assignments in mid-May and again requested an expansion.

While seven of the leases in the former Tofkat unit were still within their primary terms, the other 15 leases had already expired and passed into their 90-day secondary term.

In mid-June, the state approved the assignments for those leases still within their primary terms but rejected the others. ConocoPhillips appealed the decision and refiled its request toward the end of June. But the state once again denied the request in late July.

Some time after issuing those decisions, former Division of Oil and Gas Director Corri Feige left her position. In a pair of decisions from early November, Mack reversed both decisions. In the first ruling, he allowed ConocoPhillips to keep all the leases, including those in their secondary terms. In the second ruling, he agreed to reconsider the revised application from late June. The current ruling is the result of that reconsideration.

Nanushuk

In the conditions Mack proposed for allowing the expansion, he required ConocoPhillips to drill its exploration wells into the Nanushuk formation at the expansion area.

The detail suggests one reason why the state and the company are at odds over the leases.

The Nanushuk formation is relevant to Armstrong Energy Inc.’s discovery at the Pikka unit. Around the time of that announcement, U.S. Geological Survey geologist David Houseknecht suggested that the discovery represented a new North Slope oil play. He said that Caelus Energy’s discovery in the Smith Bay region also fit into the play.

The three Tofkat wells and sidetracks from 2008 “encountered two intervals of hydrocarbon bearing strata within the shelfal Nanushuk Formation,” according to the ruling. The wells also encountered a primary target in the Kuparuk C sandstones.

The state also believes that the west side of the expansion area has potential in the Jurassic Alpine C reservoir. The Tofkat wells were not deep enough to target the Jurassic.

New pad

Even if the state and ConocoPhillips work out a deal for drilling the proposed Putu No. 1 well, the five-year development timeline for the area could present another problem.

In previous filings, the company noted that a development in the area might require a new drilling pad, which would trigger an environmental review from the U.S. Army Corps of Engineers. The review could take at least three years to complete, according to ConocoPhillips estimates. As a result, ConocoPhillips projected production by late 2024.

But ConocoPhillips could sidestep this potential reg-

see **EXPANSION DENIED** page 19



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TAX SYSTEM

Anchorage, said at the end of a March 1 hearing that the committee was looking at making changes to the bill based on some of what they'd been hearing from Ruggiero. She said ideas under consideration included carrying forward net operating losses and eliminating the ability of taxpayers to convert those NOLs to cashable credits by requiring that all NOLs be applied against future taxes. Improvements in data transparency are also under consideration, she said, along with ideas Ruggiero presented on how to keep the state competitive for oil and gas investment. The committee took public testimony at an evening hearing March 1; the committee is next scheduled to hear the bill March 6.

Net system

The state's royalty is on the gross, Ruggiero said, and he recommended that the state keep the rest of its petroleum taxation system on the net. He said the existing combination of gross and net taxes with trigger elements based on both price and margin makes the state's system complex and leads to unintended results.

There has been a call for stability, but the goal should be durability, Ruggiero said. He recommended a self-correcting system with triggers based on profits not price, which he said would show industry that the state will share with industry the pain of low prices and the gain of

high prices. He said that some of the most durable systems worldwide have not been stable, but have responded to changes within an existing framework.

The state should stay with ring fencing by operator and simplify the system where possible.

On the subject of carry-forward losses, he said that typically a company coming into a country carries its losses forward until it has production, while a company which only explores and never produces carries the whole loss. Alaska is ahead of the game because it allows explorers credits for their losses if they are unsuccessful. That is an attraction to new players to come to the state and explore, Ruggiero said.

He did recommend that for an unsuccessful explorer leaving the state, cashable credits have conditions under which they can be claimed, including: the company is leaving the state; contractors have been paid; and leases are being relinquished.

There should also be some form of "uplift," interest on the NOL, to allow for the time value of money because a company developing a new field could be years from being able to claim NOLs against its production tax liability, Ruggiero said.

Countries have also used "uplift" to encourage rapid development by, for example, offering 100 percent uplift if the project was brought on within seven years. If a company could bring a project online in a shorter time, it had the benefit of the uplift for the years short of seven; after seven years the company has to bear the cost of the time value of money itself.

Transparency

Ruggiero said that as stewards of the state's resources, the Legislature should establish a comprehensive data transparency program. To House Resources and later in the day to Senate Resources, he said that in other areas where he has worked agencies which are equivalent to the Alaska Department of Natural Resources and the Alaska Oil and Gas Conservation Commission have data on field operations, well operations and costs which are publicly available. The issue the state faces, he said, is that the Department of Revenue is the source of data and it is constrained because information has been received as part of tax filings and is confidential.

Commissioner of Revenue Randy Hoffbeck was asked in Senate Resources if he could provide cost data by operator and said he could not. Revenue is able to aggregate data, he said, and that is available in the Revenue Sources Book and can be presented to legislative committees, but is not available by operator or by project.

Ruggiero told House Resources that transparency should allow the state to determine, for example, that there is no duplication of facilities being built just because companies couldn't come to commercial agreements. That is an issue, he said, because the state is essentially a partner in facilities' costs under its taxation system. ●

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FURIE REVIEW

eral government had agreed to the request.

"Given the passage of time, and taking into account the change of administration, Furie desires additional time to evaluate the situation and assure that it is entering into a valid agreement that will not be subject to collateral attack or criticism from the new administration," attorneys for the local independent wrote in a status report filed on Feb. 22. "Furthermore, the negotiated agreement is stale because the payment dates are no longer valid due to the government's delay, and must be amended. Furie has an upcoming board meeting at which time the company advises final decisions will be made."

In a response filed with the court on Feb. 23, U.S. Attorney Karen Loeffler with the U.S. Department of Justice wrote: "there is no basis to question the 'validity' of the settlement agreement, once finalized. A revised settlement agreement was provided to Plaintiff on February 3rd; it should not take an additional 60 days to agree to revised dates."

The U.S. Department of Justice approved the settlement with Furie in early February, nearly seven months after the company and the U.S. Department of Homeland Security announced the tentative settlement in August 2016. The Justice Department later blamed the delay on lost paperwork associated with the case in late 2016 and early 2017.

U.S. Customs and Border Protection assessed a \$15 million fine against the Furie predecessor Escopeta Oil Co. in October 2011, after the company brought the Spartan 151 jack-up rig to Alaska to explore the offshore Kitchen Lights unit. The federal agency accused the company of violating the Jones Act, which requires any vessel moving between domestic ports to be built, flagged, crewed and mostly owned by Americans.

The following summer, Furie sued the U.S. Department of Homeland Security, calling the fine "unwarranted and unprecedented." The two sides later entered mediation.

—ERIC LIDJI

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LNG HANDOUTS

extravagant promise in the 2013 election campaign to have four LNG projects operating by 2020 and to start building a C\$100 billion Prosperity Fund from LNG tax and royalty revenues.

The most significant trends in the last four years have been a sharp reductions in global LNG demand, the sudden emergence of exports from the United States and the drive by energy giants to reduce capital spending, resulting in two LNG projects in British Columbia being shelved by Shell and Chevron.

Of the 20 proposals that have been filed with regulators, only two are on the verge of final investment decisions — the massive Pacific NorthWest designed to export 12.5 million metric tons a year and the modest Woodfibre LNG plan for shipping 2.1 million metric tons a year.

Keeping them both afloat has required deft footwork by Clark's government, including tightly held agreements with First Nations in the face of moves by some to mount federal court challenges to protect

habitat for already-depleted salmon stocks.

However, Lax Kw'alaams Mayor John Helin hailed as "historic" the latest deal with the province, which included the transfer of 4,700 acres of government land.

"For the first time in my lifetime, we are really part of what is happening in our traditional territory, as far as looking after the environment and getting benefits that I think we deserve," he said. An earlier benefits proposal of C\$1.15 billion was rejected by the Lax Kw'alaams in a community vote two years ago, but former Mayor Garry Reece said he doubted Helin and his council would allow a vote on the latest benefits offer.

John Horgan, leader of British Columbia's opposition New Democratic Party, vowed that if elected he would "find a better place and a better way" to build the Pacific NorthWest liquefaction and export terminal.

He said LNG developers such as Petronas should take their lead from Woodfibre which has worked with First Nations to scale down the size of that project. ●

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EXPANSION DENIED

ulatory delay by developing the area using extended reach drilling from the existing CD-4 pad. "If the expansion area cannot be significantly developed from the CD4 pad and a new pad is needed to develop the majority of the expansion area resources, unitization provides little difference to expedited development as a new pad would need to be built in either case," Mack wrote.

Similarly, Mack noted, a data exchange with Armstrong could speed up development.

Armstrong had planned to drill its Pikka No. 1 exploration well in the vicinity this winter. The company previously told Petroleum News that it agreed to cancel the project at the request of local groups in Nuiqsut and to instead share information with ConocoPhillips.

It is unclear how the current developments would impact that partnership. ●

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SIDETRACKS

south of Nuiqsut. After finishing at the Horseshoe prospect, the rig is scheduled to drill at the Icewine prospect for Accumulate Energy Inc.

Armstrong is operating the exploration program on behalf of a joint venture with Repsol E&P USA Inc., which operated earlier wells in the explo-

ration program. When asked about the Horseshoe well during quarterly earnings call with analysts on Feb. 23, Repsol CEO Josu Jon Imaz said that the company would have more news “in coming days or in coming weeks, after finishing the drilling process.”

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BOEM SALE

and Augustine Island in the south.

EIS completed

Late last year the agency completed an environmental impact statement for the sale.

“Following a robust environmental analysis, we are moving forward with the lease sale 244 process,” said Walter Cruickshank, BOEM’s acting director, when announcing the lease sale decision. “We look forward to hearing Governor Walker’s comments and recommendations as we continue to balance environmental considerations with careful development.”

BOEM says that it notified Gov. Walker of the proposed sale and that it would mail him a copy of the notice of sale. The governor will then have 60 days to review and comment on the proposal.

Resurgence of interest?

Given a recent lack of interest in leasing on the federal outer continental shelf of Cook Inlet, no lease sales have been held in this region since 1997. However, in 2012 BOEM issued a request for interest in the now-proposed sale — the agency has said that the planned lease sale would include most of the areas identified by industry in its response to the request, but that areas of Steller sea lion critical habitat would be excluded.

The area where BOEM is offering leas-

es forms a continuation of the productive Cook Inlet basin to the north, where active oil and gas fields have reservoir sands in a thick succession of Tertiary strata. Those strata extend across the federal lease sale area. Farther south, in the part of the planning area not being offered for lease, the Tertiary thins out — in that region an oil or gas discovery would depend on finding a reservoir horizon in the older Mesozoic strata which, to the north, underlies the Tertiary succession.

The Cook Inlet planning area remains very little explored. In an earlier exploration era, in the 1970s and 1980s, just 13 wells were drilled in the region. Two of these wells found significant but uneconomic oil shows, while one well encountered minor oil shows. Seven of the wells appear to have been drilled within the proposed lease sale area.

Oil sources

As in upper Cook Inlet, the likely oil source rock in the lease sale area would presumably lie within the Jurassic Tuxedni group. Another excellent source rock, the Triassic Kamishak formation, is known to exist along the coast of the Alaska Peninsula on the west side of lower Cook Inlet. However, the extent to which this rock extends north and east, at depth in the Cook Inlet basin, remains unknown.

—ALAN BAILEY

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GMT-2 SLOWDOWN

obligation to respond to ConocoPhillips’ submittal of an application for permit to drill, but that the BLM will consider and address NVN’s concerns during the NEPA (National Environmental Protection Act) process,” Ellis-Wouters said.

“It was appropriate for BLM to address these concerns prior to the publication of a NOI (Notice of Intent),” for preparation of a supplemental EIS for GMT-2.

“BLM is committed to working with all stakeholders to address their needs and concerns throughout the GMT-2 SEIS process,” she said.

The Native Village of Nuiqsut is the

tribal group for the village of Nuiqsut, which is near the producing Alpine field and a few miles east of the areas ConocoPhillips plans to develop in the Greater Mooses’ Tooth unit of NPR-A. The tribal group should be not confused with Kuukpik Corp., the for-profit village corporation for Nuiqsut, which generally supports oil development in the region, or the city of Nuiqsut.

Native Village of Nuiqsut was also part of the lengthy litigation, in a coalition with environmental groups, against the CD-5 project and construction of a bridge across the Colville River.

BLM now plans to publish the draft SEIS between October 2017 and February 2018 with a possible record of decision, the final go-ahead for permits, between January and May, 2018.

“These dates are estimates only. The timeline has been shared with all stakeholders. We are working closely with ConocoPhillips to produce a legally defensible and efficient NEPA document,” Ellis-Wouters said.


ConocoPhillips had hoped to have the project producing in the fourth quarter of 2020, according to presentations the company made to Alaska business groups in mid-2016.

GMT-2 is the third in several projects ConocoPhillips and its minority partner, Anadarko Petroleum Corp., have planned in the northeast NPR-A. The first project, CD-5, on the NPR-A across the Colville River from the Alpine field, is now in production.

The second, GMT-1, eight miles southwest of CD-5, is now in construction. It is expected to be completed in 2018 and will produce 30,000 barrels per day at peak.

GMT-2, eight miles southwest of GMT-1, would be the third project. In January ConocoPhillips announced what could be its fourth NPR-A project, Willow, which is a few miles farther west of GMT-2. ●


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