The Alaska mining sector is facing some ups and downs in the wake of sliding oil prices and state budget cuts. See page 11.

Shell Chukchi drilling this year

Shell remains committed to drill in the Chukchi Sea this year, provided the company can obtain the necessary permits and clear some continuing legal challenges, Ben van Beurden, the company’s CEO, said during the company’s fourth quarter earnings call on Jan. 29.

“We have retained a very significant capability to be ready this year to go ahead,” van Beurden said. “And we’ve kept all our capability in place, tuned it, upgraded it just to be ready...”

Conoco slowing Mooses Tooth pace

ConocoPhillips Alaska said Jan. 29 that it is slowing the pace of investment on the Greater Mooses Tooth 1 project in the National Petroleum Reserve-Alaska.

“We are deferring the final investment decision for GMT1,” ConocoPhillips Alaska President Trond-Erik Johannsen said in a statement. “The project is challenged by permitting delays and requirements, as well as the current oil price development. In 2015, we will continue to shoot seismic...”

AIDEA buying FNG to move gas

AIDEA said Jan. 28 that, in conjunction with Gov. Bill Walker, it has signed a letter of intent to purchase Pentex Alaska Natural Gas Co. LLC and its assets, including Fairbanks Natural Gas.

The Alaska Industrial Development and Export Authority said it would immediately commence due diligence on the proposed Pentex purchase at the letter of intent price of $52.5 million. AIDEA said that if its board approves the purchase, the investment would enable it to “effectively advance the...”

Bumpy road ahead

Bumpy road ahead for a number of reasons. See CHUKCHI DRILLING page 19

Conoco slow...
ON THE COVER
It’s off limits
Fish & Wildlife ANWR plan bans oil development in coastal plain of refuge

SIDEBAR, Page 23: ANWR and the 1002 area of the coastal plain

An OCS sales proposal
New lease sale plan includes the Chukchi and Beaufort seas but has exclusions

Canadian ‘price shock’
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<td>Deadhorse, being prepped for load out to Smith Bay to drill</td>
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<td>Miller Energy Resources</td>
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<td>Mobilized to North Fork to begin Miller Energy Resources drilling this winter</td>
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**The Alaska – Mackenzie Rig Report as of January 29, 2015. Active drilling companies only listed.**

**This report was prepared by Marti Reeve**

### Alaska - Mackenzie Rig Report

**Baker Hughes North America rotary rig counts**

<table>
<thead>
<tr>
<th>Country</th>
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</tbody>
</table>

*Issued by Baker Hughes since 1944*

### Mackenzie Rig Status

**Canadian Beaufort Sea**

- **SDC Drilling Inc.**
  - **55DC CANMAR Island Rig #2**
  - **SDC**
  - **Set down at Roland Bay**
  - **Available**

**Central Mackenzie Valley**

- **Abita**
  - **TSM-7000**
  - **37**
  - **Radiated in Norman Well, NT**
  - **Available**
Bringing new energy to Alaska’s North Slope

The number-crunching on British Columbia’s chances of becoming a global LNG player continues against the backdrop of spreading unease over the outlook for commodity prices.

A report by Sanford C. Bernstein & Co. said the province may have to settle for only two major projects, down from the revised target of three set by Premier Christy Clark, which, in turn, is two short of the total she had originally targeted by 2020.

Now the Bernstein report projects one project will be on stream in 2021 and a second in 2023, starting with Shell’s $40 billion LNG Canada venture, followed by the Chevron-operated Kitimat LNG which now has Australia’s Woodside as a 50 per cent partner.

“Outside of the United States, we expect continued expansion in Papua New Guinea and the emergence of new centers in Canada and Mozambique over the coming years, assuming costs can be lowered,” the investment bank said in a note to clients.

Bernstein makes no reference to Pacific NorthWest LNG, which was once rated as the frontrunner until Malaysian state-owned Petronas started juggling its timetable because of declining oil prices (which the firm hopes to use to index its LNG sales deals) and a grim outlook for construction costs.

However, Clark’s government and some industry observers remain hopeful Petronas will sanction the project during the current quarter.

The Eurasia Group said in December that British Columbia’s LNG prospects were increasingly facing commercial challenges, including an inability to negotiate sales contracts and construction cost inflation.

Eurasia said that “monitoring both oil prices and cost mitigation in coming months will be crucial to determine whether Petronas could still take its investment decision in 2015.”

“If not, it will be unlikely that that British Columbia would see major LNG production from a mega project before 2020.”

British Columbia, which has a combined capacity of well over 100 million metric tons a year of proposed LNG exports, is also casting a wary eye south of the border where plans are in the works for exports of 278 million metric tons a year from the United States, without even factoring in the chances of an Alaska project going ahead.

The latest spot Asian LNG prices have dropped below US$10 per million British thermal units, down 50 per cent from a year earlier because of the efforts of to tie contracts to oil prices, softening demand and abundant supplies, said Citibank.

Citibank analyst Seth Kleinman said that if LNG prices slide to US$8-US$10, unsanctioned projects will “look overwhelmingly uneconomic, with even U.S.-exported LNG to Asia and Europe uneconomical at current prices.”

Bernstein analyst Neil Beveridge was more emphatic, declaring that most of the proposed U.S. projects will “never be built” because of the slump in crude prices, suggesting buyers’ appetite for U.S. LNG will diminish “as they reassess supply options in a lower oil price environment.”

---ERIC LIDJI

---

Citibank analyst Seth Kleinman said that if LNG prices slide to US$8-US$10, unsanctioned projects will “look overwhelmingly uneconomic, with even U.S.-exported LNG to Asia and Europe uneconomical at current prices.”

---ERIC LIDJI
Johnson: Alaska is pawn in bigger game

Anchorage Republican says federal government has broken statehood agreement, cites ANWR wilderness designation; overreach in OCS

By STEVE QUINN
For Petroleum News

Most may see Rep. Craig Johnson as someone entering his third term as Rules Chairman, a key leadership post. But the Anchorage Republican is also entering his fifth term as a member of the House Resources Committee. He served as co-chair for the first two terms, the first with the late Carl Gatto and then with Rep. Matt Neuman, now the co-chair of the Finance Committee.

Johnson is back on Resources, but he’s also a member of the House Economic Development, Tourism and Arctic Policy Committee. The committee has already had one hearing on House Bill 1, the state’s Arctic policy bill.

Like most in the Legislature, Johnson finds himself somewhat blindsided by the Obama administration’s decision to withdraw sections for offshore development and designate ANWR as a wilderness. He discussed those concerns with Petroleum News earlier this week.

Petroleum News: Let’s start with the news from over the weekend. President Obama announced his decision to give ANWR a wilderness designation, further removing that area from the prospects of development. What was your initial thought?

Johnson: It’s probably different from most. I’m not surprised at what this is. This is payback for the extreme environmentalists that got Obama elected. I think he is paying them back with this withdrawal. I think that’s been the target of extreme environmentalists from inside and outside of Alaska well, since ANWR has not been honored, so once again I’m not surprised but disappointed it.

Petroleum News: Would you have predicted it?

Johnson: You know, I wouldn’t have predicted it. In light of the battle I think it would cause as a result of the Senate changing. I don’t know the rules of that body, but to say there are irritated legislators today would be very much the case. I thought that might have given us a stay. Had the Democrats retained control, I think it would have been a lot different. I think it would have been a stay. Had the Democrats retained control, I think it

Petroleum News: Now, he’s one of these people who the administration believes it’s protecting? Does that strike you as odd?

Johnson: That depends on your definition of protection. If you are protecting people from having a livelihood, from having a job, from being able to educate their children, from being able to send your kids to college, then my definition of protection is maybe a little different from the Obama administration.

I think you give people an opportunity to work, to utilize the resources. I think that is the greatest protection, when you don’t need government to do this kind of stuff. So I think we differ on our definition on protecting those people.

Petroleum News: So if there are not a lot of legal options for the Legislature, what do you do?

Johnson: Well, I’m not sure there aren’t legal options. We are exploring it quite frankly. If there is a law passed, we want to make sure that we can as a state have a say in that, so it’s important that the Senate continue to work with the governor to protect the state’s sovereignty to prevent these things from happening. We can use the environmentalists’ tack by suing. We actually won a couple of lawsuits. Now we are in the 9th Circuit with a ringed seal and bearded seal. This is a little bit different declaring this a wilderness area.

To me, it’s pretty cut and dried, even though I’m not an attorney. They violated a contract (ANILCA, the Alaska National Interest Lands Conservation Act). We had a contract with them and they have been violating it forever — they being the federal government. I think they are in clear violation of ANILCA and the Statehood Act. It doesn’t do any good to convey wilderness. That’s not the reason we are a state. We were given the lands to fund our government and to support ourselves so we wouldn’t be a burden on the federal government. That was kind of the premise. That was the main objection for voting against Alaska’s statehood because they didn’t think we would be able to take care of ourselves and we would be a burden on the treasury. They are just reneging on the contract.

Honorable people keep their agreement. I’ll just leave it at that. Honorable people keep their agreement.

Petroleum News: And now you got more news about the feds withdrawing more of the Arctic areas while opening up sections of the Atlantic. Did it surprise you that the administration chose the Atlantic over the Arctic?

Johnson: More federal overreach. I have a prediction that may or may not come to fruition. I think he may not veto Keystone and we are the tradeoff. He’s telling the environmentalists, don’t beat me up on this and I’ll give you Alaska. I think we are being served up as a pawn in a much bigger game.

Petroleum News: Still, did you find it surprising the Obama administration allowed drilling in the Atlantic?

Johnson: Yeah, I’m surprised by that. I really don’t know what to make of this administration. I’m to the point of being numb. It’s like here we go again. So surprise is probably not a word I would affix to it. It’s a little too obvious. The East Coast is rich in resources — fisheries that are troubled, recreation opportunities, probably more so than the Arctic.

Petroleum News: The U.S. takes over as chair for the Arctic Council in April. There have been concerns that the Obama administration’s agenda for this leans toward climate change while Alaska’s leaders would prefer an economic development agenda. Given what happened over the weekend, how do you see it?

Johnson: Anyone who thinks the state of Alaska could have even a miniscule impact on climate change, well until we bring in countries like China and until you get everyone on board, Alaska shouldn’t bear the burden for the world. If we shut down all the development in Alaska, it wouldn’t be a blip on the radar for the climate change.

We can’t be the whipping boy for the world when it comes to climate change.

We do happen to be a great fundraiser for a lot of the environmental groups, because you see a nice polar bear — even on the release from the (Obama) administration, I saw a polar bear. To think by shutting down ANWR, maybe it’s a moral victory, but it’s empty. It’s not going to have a long-term effect on the outcome of climate change. Once again until you bring in the other countries who are burning coal — dirty coal — it’s just lip service.

Petroleum News: Do you think Alaska will have a meaningful seat at the table to help advance the nation’s Arctic policy?

Johnson: That depends on your definition of protection. I think it’s probably not a word I would affix to it. It’s a little too obvious. The East Coast is rich in resources — fisheries that are troubled, recreation opportunities, probably more so than the Arctic.

Petroleum News: Do you think Alaska will have a meaningful seat at the table to help advance the nation’s Arctic policy?

Johnson: I was hopeful. Quite frankly I was hopeful that we could have someone from Alaska chair that. We have very capable people who are involved. Let’s not forget the only reason the United States is an Arctic country is because of Alaska. North Dakota although sometimes seems like an Arctic country but it’s not. So again the only reason we are an Arctic country is because of Alaska, and that’s what we’ve been position — for. You’ve seen resolutions from chambers to make sure we have a seat at the table.

We will have a voice because of the indigenous people, but I think it’s important that we be there. To go back to your original question, I’m not optimistic at this point. What I saw over the weekend, I think Al Gore has got a better chance of chairing that Arctic Council.

Petroleum News: OK, looking ahead at the next two years, as someone who will have been on the House Resources Committee for nine then 10 years, what do you believe the priorities are for the committee?

see JOHNSON Q&A page 21
Corps favors Nome for deep-draft port
Proposes dredging to 28-foot depth, expanding causeway and installing new dock in western Alaska harbor; could take supply vessels

By ALAN BAILEY
Petroleum News

The U.S. Army Corps of Engineers is in the process of completing a report recommending an expansion to the harbor at Nome as a preferred option for a deep-draft port in Arctic Alaska, Lorraine Cordova, economic section chief in the Corps’ Alaska District, told a meeting of the Alaska Association of Environmental Professionals on Jan. 20. Cordova said the Corps has developed what it calls “a tentatively selected plan” for the Nome harbor expansion — the process for selecting a port site remains far from complete, with several reviews of the proposal still to be conducted.

Harbor expansion
The plan, as currently envisaged, would entail adding a 450-foot caisson dock to the existing Nome harbor, demolishing an existing spur breakwater, expanding the harbor’s causeway and dredging the floor of the harbor to achieve a water depth of 28 feet. Cordova explained. The modified harbor could accommodate offshore oil industry supply vessels, for example, but would not be deep enough to take an icebreaker. The total cost of the development would be some $207 million.

The Corps has been conducting a joint study with the Alaska Department of Transportation and Public Facilities into the Arctic deep-draft port concept.

On Dec. 16 the Corps headquarters accepted the Nome project as a tentatively selected plan, thus setting the stage for the draft study report that the study team is about to publish, she said.

Cordova said that the Corps is currently evaluating options for optimizing the harbor depth at Nome. But, although it may be possible to deepen the harbor for icebreakers, the additional cost of doing this would probably turn out to be greater than the benefit gained, she said.

Public comment period
The study report, which should be published soon, will undergo a public comment period. The study team will then review the comments it receives, looking for “show stoppers” and making modifications as necessary. The report must then go through several other reviews, including a Civil Works Review Board review, a state agency review and external peer review, before being signed off by the Corps chief of engineers. The U.S. Congress would then have to authorize the project and appropriate the necessary federal funding before the port expansion could proceed, Cordova said.

Assuming that the water depth in the harbor would end up being more than 20 feet, the federal government would pay 75 percent of the cost of modifying the harbor, with non-federal sponsors picking up the remainder of the cost and the cost of any new local service facilities associated with the port, Cordova said.

Minimal environmental impact
Michael Noah, environmental resources section chief in the Corps’ Alaska District said that the relatively modest amount of dredge material that would need to be removed from the harbor could be discharged onto a local beach with minimal environmental impact. Existing environmental assessments for the placement of maintenance dredging material onto that beach and for major modifications made to the Nome harbor a few years ago would meet the needs of the National Environmental Policy Act assessment for the project — no environmental impact statement would be required, Noah said. However, deepening the harbor farther, he said, 35 feet, would involve handling of a huge volume of dredged material, he said.

A long debate
The question of whether and how to build a deep-draft port in Arctic Alaska has been a subject of debate for several years, especially as the volume of Arctic shipping builds up and interest in Arctic offshore oil exploration increases, in response to the multi-year shrinkage of the summer Arctic ice extent. When Shell conducted exploratory drilling in the Chukchi and Beaufort seas in 2012, the company had to use Dutch Harbor in the Aleutian Islands, hundreds of miles to the south, as its main logistics base.

The deep-draft port study that the Corps and the state of Alaska are conducting resulted from conferences held in 2008 and 2009. A subsequent planning meeting, in which Arctic stakeholders brainstormed Arctic infrastructure needs, identifying deep-draft vessel support as a top priority, Cordova said.

In 2012 the Alaska Northern Waters Task Force, established by the Alaska Legislature, identified a number of potential deep-draft port sites.

And a subsequent meeting in April 2013, involving, among others, people from Arctic communities, the U.S. Coast Guard, the U.S. Navy, and the National Oceanic and Atmospheric Administration, came up with a long list of infrastructure needs, Cordova said.

14 possible sites
official starting point for the joint study between the Corps and the state, there appeared to be 14 possible sites for a deep-draft port, Cordova said. To narrow down the choices, the study team applied five selection criteria: proximity to operations such as shipping and mining that might use the port; connections to other modes of transportation; size of the local population that might support development on the land adjacent the port; natural depth of the water at the site; and navigation accessibility, bearing in mind wind, wave and ice conditions.

This line of analysis led to just three potential sites: Nome, Point Spencer and Cape Riley. Of these choices, only Nome has an existing man-made harbor. Point Spencer and Cape Riley are locations with relatively deep water in Port Clarence, a natural harbor to the northwest of Nome, Cordova said.

However, neither of the two Port Clarence sites showed a positive benefit to cost ratio for port development. The team quickly dropped Cape Riley as an option — a mine that has not yet started up would have been the only operation to be supported by a port at that location, Cordova explained. And, although Point Spencer has an existing navigation station and airport, there was a lack of supporting data and official support that might have justified this choice. That left Nome, the location that has now become the focus of the study team’s attention.

Three scenarios
Looking at the economic justification for an expansion of the Nome harbor, the team considered three scenarios: a no-growth case; a base case assuming the continuation of past growth rates for the port; and a high scenario involving use of the port for support vessels from offshore oil projects. And, while the cost of the low case significantly exceeded the potential benefits, the high scenario showed a modest margin of benefits over costs. On the other hand, there are many unknowns and much uncertainty in the potential future use of the port, Cordova commented.

On Dec. 16 the Corps headquarters accepted the Nome project as a tentatively selected plan, thus setting the stage for the draft study report that the study team is about to publish, she said.

Contact: Alan Bailey
albailey@environmentnewswire.com

PETROLEUM NEWS • WEEK OF FEBRUARY 1, 2015

FACILITIES
E
t for the Canadian petroleum industry the uppermost
t question for 2015, except for the imponderables of
commodity prices, hangs over whether the government of
Prime Minister Stephen Harper decides that its chances of
a fourth straight election victory depend on implementing
carbon reduction promises.
Amid the clamor for action from Harper’s political
opponents and environmentalists, there is a common view
that he has no choice but to deliver
on his promise extending back to
when he was first elected in 2006
and release a plan for reducing greenhouse gas emissions from
the oil and natural gas sector and stop
waiting for the United States to act.
But Harper, if nothing else, does
not react well to those telling him
what action he should or must take.
His latest message to the carbon tax advocates occurred in December
when he told the House of Commons that “under the current
circumstances of the oil and gas sec-
tor, it would be crazy economic pol-
icy to impose unilateral penalties on
the oil and gas sector. With the (cur-
rent price conditions in the industry)
this government will not consider
unilateral regulations.”
Instead, Harper left the impres-
sion that his government will continue avoiding demands
for a comprehensive GHG reduction strategy, opting to
continue its so-called sector-by-sector approach, leaving
the petroleum industry largely untouched.
Prentice hints at breaking ranks
On this issue, however, he could get left behind by one
of his most trusted allies, Alberta Premier Jim Prentice.
In the short time since getting elected premier, Prentice
has hinted he may be willing to break ranks with Harper
and adopt a new approach to energy, the environment and
climate change, including changes to the province’s own
carbon tax on large emitters.
“One of the surest methods of securing Canada’s pros-
perity and the market access we need for all of our prod-
cucts is for the provinces involved to find common ground
on energy and the environment and enforce fair, clear,
well-thought-out rules,” he told the Vancouver Board of
Trade before Christmas.
Prentice later told reporters that Alberta’s tax, levied on
the biggest industrial emitters at a rate of C$15 per metric
ton, needs an overhaul.
The tax has collected almost C$500 million so far that is
earmarked for use on technological advancements to
reduce emissions.
He said a tentative new framework for Alberta’s
approach to energy and the environment should soon be
released, indicating how the province will tackle the sta-
tus quo.

**Climate action clock running**

Canadian prime minister’s chances of holding power in 2015 seen as tied to his willingness to implement a carbon tax; BC levy model

By GARY PARK
For Petroleum News

As the price of gasoline falls, some observers
make a case that the shortfall in government
revenues could be filled with a direct carbon tax.

**Need to harmonize**

Even so, Prentice was adamant that Alberta needed
to harmonize its approach on climate regulations for
the petroleum industry with the Canadian and United States
governments.

“My views and (Harper’s) views have a simili-
ty in terms of investment,” he said. “As Albertans we want
to be environmental leaders but we are mindful that there
must be jobs and investment in Alberta. Under no circum-
stances are we going to make changes that at a difficult
time may damage the investment climate.”

What steps Prentice proposes are unlikely to be
ignored by Harper, who entrusted the Alberta premier
with three senior cabinet posts (environment, aboriginal
affairs and industry) before Prentice took a top post in
Canada’s banking industry only to return to politics in
2014 when Alison Redford was forced out of Alberta’s top
job.

Paul Bothe, a business professor at the University of
Western Ontario, suggested Prentice holds the key to
Canada’s carbon policy, especially as he seeks a trade-off
with the Ontario and Quebec governments in return for
their endorsement of new crude oil pipelines to Eastern
and Atlantic Canada.

A C$30 carbon tax would give Alberta an opportunity
to “get in front of the carbon issue,” Bothe said.

**This may be time to act**

The time for Prentice and possibly Harper to act may
never have been better than during the current oil price col-
lapse.

By some estimates every three barrels of oil are respon-
sible for one metric ton of carbon.

As the price of gasoline falls, some observers make
case that the shortfall in government revenues could be
filled with a direct carbon tax.

Tom Worstall, a columnist with Forbes magazine, wrote:
“The fall in the price of oil means we can impose a sane and
sensible 50-cent gas tax without the pain being too great or
apparent.”

Others, however, suggest that any attempt by govern-
ments to seize that window of opportunity would be instant-
ly viewed as a cynical move and face stiff opposition.

For the price of gasoline falls, some observers
make a case that the shortfall in government
revenues could be filled with a direct carbon tax.

**Narrowing the gap**

If Harper’s advisers are looking for options, a new
study has concluded that Canada could narrow the gap on
achieving its 2020 GHG targets by adopting the strategies
of British Columbia, Ontario and Quebec, Canada’s three
largest provinces.

The report by the David Suzuki Foundation said those
jurisdictions have shown that Canada could come within
5.6 percent of meeting its emissions pledges.

Ian Bruce, the foundation’s science and policy manag-
er, said British Columbia’s seven-year-old gasoline tax,
Quebec’s cap on emissions and Ontario’s phasing out of
coal-fired power plants have all been effective without
harming their economies.

He said the study is not proposing “radical new ideas
— these are proven solutions that work.”

Bruce said the “main obstacle to Canada meeting its
target is a lack of leadership at the national level” and a
reliance to build a made-in-Canada solution around
successful provincial policies.

British Columbia’s strategy is based on a 7.24-cent a
liter gasoline tax that was in place from 2008 to 2012 and
that the province’s Environment Minister Mary Polack
said has put her government on track to lower GHGs by
33 percent in the 13 years starting in 2007.

At the United Nations’ climate-change conference in
Peru in December, World Bank president Jim Yong Kim
described the British Columbia tax — the first by any
jurisdiction in North America — was “one of the most
powerful examples of carbon pricing.”

B.C. Environment Minister Mary Polak welcomed the
high-level recognition that British Columbia’s “broad-
based, revenue-neutral carbon tax is a successful model
other jurisdictions could follow.”

Refuting claims

Not only has British Columbia refuted claims that car-
bon taxes kill jobs, but the initiatives the province and
governments such as Sweden have taken are quietly gain-
ing support within the oil and gas industry where
ExxonMobil and Royal Dutch Shell have factored in car-
bon prices of US$40–US$60 per metric ton into their long-
term planning, with ExxonMobil publicly endorsing a tax.

Whether that response would carry over to Alberta’s oil
sands sector, where both companies have vast holdings,
have yet to be tested.

Economists agree that the recent trend towards uncon-
strained development of the bitumen deposits cannot con-
tinue indefinitely, given the global supply-and-demand
picture.

But they suggest that a carbon tax would serve as a
prod towards greater innovation, which has never deterred
the petroleum industry in the past, starting with the home-
grown technologies that opened up the oil sands in the
first place and horizontal drilling combined with multi-
stage fracturing that unlocked shale deposits.

A jolt to the established order was indirectly hinted at
by Julie Gelfand, the Canadian government’s commis-

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Obama orders Arctic coordination group

New steering committee will coordinate federal Arctic policies across government agencies and improve sharing of information

By ALAN BAILEY

President Barack Obama has ordered the formation of an Arctic Executive Steering Committee to coordinate the implementation of federal Arctic policies across government departments and agencies. Where applicable the committee will also improve the coordination of Arctic policies across state, local and Native tribal governments, and across other similar Native organizations; academic and research institutions; and the private and nonprofit sectors, the president’s order says.

Chaired by the director of the Office of Science and Technology or a designee, the committee will also include the heads or their designees of the Council on Environmental Policy, the Domestic Policy Council and the National Security Council. The deputy secretaries or equivalent officers from a list of 16 federal agencies will also be committee members.

Long-term value

The order says that the Arctic has critical long-term strategic, ecological, cultural and economic value. “It is imperative that we continue to protect our national interests in the region, which include: national defense, sovereign rights, freedoms and uses of the sea as reflected in international law,” the order says.

The new committee will provide guidance and coordination over the implementation of Arctic policies and plans that the president has issued, and will also provide guidance on prioritizing federal activities while the United States chairs the Arctic Council, the ministerial forum of the eight Arctic nations. This year the United States will assume chairmanship of the Arctic Council.

The president’s order also tasks the new committee with establishing a working group by May 1, 2015, to prepare a report on overlaps between different government agencies in the implementation of Arctic policies and to make recommendations on how to reduce duplication of effort and how to address any potential gaps in policy implementation.

In the interests of engaging with stakeholders in the Arctic, including the state of Alaska and Alaska Native tribal governments, as well as the private sector and non-profit organizations, the order requires the new committee to develop processes to improve coordination and the sharing of information with these organizations, and for tribal consultation. The committee must identify a federal point of contact for communication of Arctic matters with the State of Alaska and the Arctic Region.

Barack Obama

“I agree that climate change is an issue facing our nation and my state, but for President Obama and many of his ideological allies, the plan for the Arctic boils down to two words: hands off.” — U.S. Sen. Lisa Murkowski, R-Alaska

Senators comment

In critiquing the president’s order, Sen. Lisa Murkowski, R-Alaska, commented on the emphasis on climate change. While the order usefully addresses the need for coordination across federal agencies, the order fails to acknowledge the need and opportunities of the indigenous people of the Arctic and the opportunity to improve the lives of the people who live in the Arctic, Murkowski said.

“Today’s executive order is a good step forward in strengthening the coordination of federal agencies on Arctic policy — and seeks direct input from Alaska’s Arctic stakeholders — but it is unbalanced in what the administration’s Arctic priorities should be,” Murkowski said when the order was released on Jan. 21. “Once again, the president remains focused on climate change. I agree that climate change is an issue facing our nation and my state, but for President Obama and many of his ideological allies, the plan for the Arctic boils down to two words: hands off.”

Sen. Dan Sullivan, R-Alaska, expressed similar sentiments.

“While I am encouraged to see that the federal government is taking steps to coordinate itself in the Arctic arena — I see this as merely a piece of paper — I see this as merely a piece of paper,” Sullivan said.

“With regard to the Arctic, the State of Alaska is not just another stakeholder as this executive order indicates. We are the other sovereign. Indeed, the sovereign that makes the U.S. an Arctic nation. What is troubling about this executive order is the White House’s continual focus on climate change. While the order usefully addresses the need for coordination across federal agencies, the order fails to acknowledge the need and opportunities of the indigenous people of the Arctic and the opportunity to improve the lives of the people who live in the Arctic,” Sullivan said.

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Notice – Request for Proposals

Inuvik Gas Limited, the natural gas distribution company in the town of Inuvik, Northwest Territories, is requesting proposals for the supply of liquefied natural gas (LNG).

Interested parties should contact Inuvik Gas to obtain a copy of the request proposal package.

The deadline for submission of proposals is February 27, 2015.

For more information, please contact:

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CLIMATE ACTION

Continued from page 7

Gelfand pointedly noted that detailed, proposed regulations have been sitting on the desk of successive environment ministers, but the “federal government has consulted on them only privately, mainly using a small working group of one province and selected industry representatives.”

Inuvik Supply for the Town of Inuvik

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RCA subpoenas former FNG employee

Upcoming deposition will ask Kirby why he emailed Regulatory Commission of Alaska Chairman Robert Pickett

The state is requiring a former Fairbanks Natural Gas LLC employee to explain a personal email he recently sent to the chairman of the Regulatory Commission of Alaska.


He’ll be asked to explain an email he sent to RCA Chairman Robert Pickett from a personal account on Jan. 6. In the email, Kirby complained about working in a “very hostile and negative environment” and made accusations about company officials.

According to a copy of the email included in regulatory filings, Kirby wrote, “I was hired not because of my utility experience but rather my entire body of work which provides a lot of credibility with regard to testifying and so forth. Yet now they realize I am very independent, I do not lie, cheat or steal and I will not compromise my principals.” He added, “If something happens to me, I would appreciate it if you would follow up. There is a lot of money involved here and I present a clear present danger to those who benefit.”

Speaking to Petroleum News on Jan. 27, Fairbanks Natural Gas President Dan Britton said, “I have never asked anyone to compromise their principles nor does Fairbanks Natural Gas compromise its principles. I don’t know what Mr. Kirby is talking about.”

Britton declined to say whether Kirby quit or was fired, calling it a personnel matter.

Formerly regulatory affairs manager

At the time Kirby sent the email, he was regulatory affairs manager for Fairbanks Natural Gas, which made him one of the witnesses in a rate case currently working its way through the regulatory process. He provided initial testimony in support of Fairbanks Natural Gas’ financial information when the utility filed its rate case back in June 2014.

State regulations prohibit a commissioner from communicating with parties involved in pending decisions and require all communications sent to the Regulatory Commission of Alaska to be addressed to the commission as a whole, rather than to individual staff.

Those regulations also provide guidelines for how a regulator should respond to such “ex parte communications.” On Jan. 8, Pickett responded to Kirby through a third party — Commission Section Manager Ann Wilde — and also sent a report about the matter to his fellow commissioners.

State regulations require both actions within two business days.

The entire correspondence became publicly known Jan. 12, when the commission posted Pickett’s report, which includes a copy of the original email, to its website.

The next day, Fairbanks Natural Gas removed Kirby from the “service list,” which is a list of individuals authorized to receive paperwork in an ongoing regulatory proceeding.

Borough wanted disposition

That same day, the Fairbanks North Star Borough asked Fairbanks Natural Gas to make Kirby available for a deposition, only to be told, on Jan. 20, that Kirby no longer worked for the utility, according to a Jan. 23 filing from Kelly M. Helmbricht of the law firm Brena, Bell and Clarkson, which is representing the Fairbanks North Star Borough. The borough then asked regulators to require Kirby to appear at an upcoming deposition.

Several days later, on Jan. 26, Fairbanks Natural Gas withdrew the original testimony Kirby provided in June 2014. Britton formally added the information to his testimony.

Land & Leasing

Minor lease transactions in December

Aurora Gas LLC is looking to transfer a small royalty interest in four segments of ADL 388233 to Apache Alaska Corp, according to the December 2014 lease report from the Alaska Department of Natural Resources. The lease is on the west side of Cook Inlet, where Apache and Aurora have previously engaged in small lease transactions.

Windmill Canyon LLC is looking to transfer a 0.25 percent royalty interest in some 47 leases in the Nenana basin to Doyon Ltd. The companies previously partnered on a Nenana basin exploration venture, along with several other small independent companies.

Independent investor J. Andrew Bachner is looking to transfer a 0.1 percent royalty interest in five Cook Inlet leases — ADL 381003, ADL 381201, ADL 381203, ADL 374002 and ADL 378114 — to Cook Inlet Energy LLC. The leases are assigned to the Redoubt unit.

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**Bokan drilling cuts deeper REEs**

Ucore Rare Metals Inc. Jan. 28 reported that all five holes drilled beneath the existing resource at the Bokan-Dotson Ridge heavy rare earth element project in Southeast Alaska intercepted mineralization with grade and rare earth content consistent with what has already been delineated. The existing Bokan resource currently extends to an average depth of 220 meters and the five deeper holes drilled in 2014 cut the mineralized zone an average of 100 meters below all previous drill intersections. This confirmation that the REE mineralization continues to depth could result in significant resource expansion at Bokan. A total of 17 diamond holes (3,960 meters) were drilled at Bokan in 2014. In addition to the five deep holes, 12 infill holes were designed to upgrade the existing Bokan resource.

**Palmer expansion slated for 2015**

Constantine Metal Resources Ltd. Jan. 26 reported final drill results and summarized key advancements of the 2014 exploration program at its Palmer copper-zinc-gold-silver project in Southeast Alaska. Two of the newly reported holes, CMR14-64 and CMR14-65, intersected the massive sulfide electromagnetic plate target of the South Wall zone. Hole 64 cut 4.1 meters grading 0.55 percent copper, 4.99 percent zinc, 21.1 grams per metric ton silver, 0.16 g/t gold and hole 65 cut 11.3 meters grading 0.30 percent copper, 3.95 percent zinc, 27.2 g/t silver, 0.23 g/t gold along the western, up-dip edge of the South Wall expansion area. Constantine says the wide-spaced drilling completed in 2014 has confirmed the target is developing into a sizeable new zone with excellent potential for expansion. The third hole, CMR14-67, cut 3.9 meters grading 0.19 percent copper, 5.11 percent zinc, 92.5 g/t silver, 0.37 g/t gold at the Palmer project’s Ridge South, a flat-lying continuation of the nearly vertical South Wall zone. The company says hole 67 substantially expands the RW zone footprint, and extends the total unfolded length of continuous RW-South Wall mineralization to more than 1,500 meters. The 2014 program at Palmer involved 9,786 meters of drilling in 16 exploration holes and one geotechnical hole. Constantine says the results from drilling completed in 2010, 2013 and 2014 will be incorporated in a new resource estimate for Palmer to be initiated in early 2015. Dowa Metals & Mining Co. Ltd. has the option to earn a 49 percent joint-venture interest in Palmer by investing US$22 million over four years. Through 2014, the second year of its option agreement, the Tokyo-based smelting and mining company has spent roughly US$10 million at Palmer. Dewa has notified Constantine of its intent to continue its participation in their partnership at Palmer, with this year’s budget and program scope to be finalized early in 2015.

**Senators seek to limit EPA veto**

Sens. David Vitter (R-LA) and Joe Manchin (D-WV) Jan. 7 re-introduced legislation aimed at prohibiting the Environmental Protection Agency from pre-emptively or retroactively vetoing a permit under Section 404 of the Clean Water Act. The re-introduced legislation, “Regulatory Fairness Act of 2015”, has been designated S.54. The EPA previously used CWA Section 404 authority to revoke permits issued for the Mingo Logan coal mine project in Manchin’s home state of West Virginia. If passed, the Regulatory Fairness Act of 2014 would prevent EPA from pre-emptively vetoing CWA permits needed to develop the Pebble copper-gold-molybdenum deposit in the Bristol Bay region of Southwest Alaska.

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**Alaska mining faces ups, downs from low oil prices, budget-cutting moves**

Plummeting oil prices have put Alaska residents and Alaska miners in the same boat. Suddenly, it’s less expensive to top off the tank of an SUV or a haul truck, but the state budget, fueled by oil revenue, is teetering on the edge of an estimated $3.5 billion deficit. That’s $10 million a day for 2015.

“We know Alaska is experiencing a significant drop in revenue — the price of oil has dropped more than 50 percent over the past six months,” Alaska’s new governor, Bill Walker, said during his inaugural State of the State Address.

While this oil money shortfall will likely googue into state-funded projects across the board, from fundamental programs such as schools to the most ambitious like building a 200-mile road to the Ambler mining district in Northwest Alaska, Walker told Alaskans and their legislators that there is no reason to panic about the state of the state.

“This might call this a crisis — I call this a challenge and an opportunity,” Walker said in his Jan. 21 speech. “We have an opportunity to make impactful and constructive changes, to challenge the traditional ways of doing business.”

“But now is the time to sound the alarm,” Walker added. “I call this a challenge and an opportunity,” Walker said in his Jan. 21 speech. “We have an opportunity to make impactful and constructive changes, to challenge the traditional ways of doing business.”

Now is not the time to sound the alarm my fellow Alaskans. Now is the time to pull together; to make a plan: to sharpen our focus; and to get to work,” he rallied.

**Natural gas pipeline**

High on the list of Walker’s planned initiatives is bolstering Alaska’s income and lowering expenses by reducing the high cost of energy in the state, an agenda item that appeals to Alaska's residents and miners.

“This administration will not rest until Alaska is squarely on track to become an economic powerhouse, thanks to low-cost energy that will bolster and diversify our economy,” the governor vowed.

He envisions a large portion of this low-cost energy being delivered to Alaskans and world markets via a large-diameter pipeline that taps vast reserves of natural gas on the North Slope.

“Under my administration we will finally begin building the Alaska gas-line to tidewater,” Walker said.

Companies developing the next generation of mega-mines in Alaska, such as the Donlin Gold and Pebble copper-gold-molybdenum projects in western and southwestern Alaska, respectively, have already determined that natural gas is the most economical and environmentally sound way to fuel their operations, even if it means importing the fuel from outside of the state.

Donlin Gold LLC — an operating company equally owned by subsidiaries of Novagold Resource Inc. and Barrick Gold Corp. — believes so much in the natural gas idea that it is willing to...
BRITISH COLUMBIA PREMIER CHRISTY CLARK Jan. 26 unveiled C$9 million in new funding to support mining in the province. Clark said the funds will establish a MAJOR MINES PERMITTING OFFICE to improve coordination of major mines permits across government, add staff to conduct more inspections and permit reviews, and maintain improved turnaround times for notice of work permits. The base budget of the ministry will be increased by about C$6 million, including a portion to make current continuity funding permanent. New permit fees for producing mines in B.C. are expected to raise an additional C$3 million annually. The premier said the C$10 million mining flow-through share tax credit program has been extended to year’s end 2015 to support mining exploration investment. To further encourage exploration, she also committed to extending the province’s new mine allowance to 2020. The tax credit combines with other mineral tax provisions to support new mines and major expansions by allowing them to deduct 133 percent of their capital costs. Exploration expenditures in British Columbia for 2014 are estimated to total C$338 million. In 2013, comparable spending represented more than 21 percent of all mineral exploration in Canada. This is a substantial increase from 2001 when B.C. accounted for just six percent of the nation’s exploration expenditures. “Up to 10 new mines are expected to proceed in the next few years and this new funding will make sure we are able to support these projects and ensure the safety of this important industry as it continues to grow,” said Premier Clark.

SEABRIDGE GOLD Jan. 26 said an independent geotechnical review board will consider the KSM project’s tailings management facility and water storage dam with a focus on structural stability and integrity. The review board is charged with providing independent, expert oversight, opinion and advice to Seabridge on the design, construction, management and closure of the tailings facility and water dam. Seabridge said this eight-person panel will have unimpeded access to all technical data necessary to enable them to assess the tailings facility and water dam at KSM on an ongoing basis to ensure that these structures meet internationally accepted standards and practices. Members of the review board include a co-founder of SIMS CONSULTING, an award-winning civil engineer; a principal of GOLDER ASSOCIATES; and the director for Québec of the CANADIAN DAM ASSOCIATION.

ROCKHAVEN RESOURCES Jan. 26. reported a maiden inferred mineral resource estimate of 7.16 million tonnes averaging 4.19 grams per metric ton (948,348 ounces) gold and 96.23 g/t (21.78 million ounces) silver for its Klaza property in southern Yukon Territory. The resource also includes 144.3 million pounds of zinc, 121.1 million lbs. lead and 14 million lbs. copper. The estimated 131 million-ounce gold-equivalent resource encompasses drill 

see NORTHERN NEIGHBORS page 14

Greens Creek Mine is preparing for the next stage of its long-running tenure as a low-cost primary silver producing mine in Southeast Alaska. The underground mine, located on Admiralty Island about 18 miles southwest of Juneau, extracts ore from a volcanogenic massive sulphide deposit with an unusually high silver content. The mine produces silver-silver-lead-zinc-gold by-products.

Idaho-based Hecla Mining Co. owns the mine, which has operated for most of the quarter-century since its operations began in 1999. Drilling efforts over the past 10 years have replaced production and added new reserves and resources. Exploration efforts are ongoing along the trend of numerous orebodies underground and aggressively exploring the highly prospective 27-square-mile land package on surface. Underground drilling efforts this year are looking to convert resources to reserves and define extensions to the 200 South, Southwest Bench and NNW. Surface drilling at Killer Creek may define a new mineralizing center at Greens Creek.

In 2014, Hecla carried out significant exploration that is expected to boost the mine’s resource and reserve base. Hecla President and CEO Phillips S. Baker Jr. told industry analysts recently that Greens Creek continued its “solid, low-cost, consistent cash-generating performance” in 2014. “At Greens Creek, we continue to deliver high-grade drill intersections that should add resources all along the Southwest bench, 200 South, and Deep 200 South Gallagher Fault Block trends, as shown in slide 25; and upgrade resources to reserves at the northwest West, West Wall zones, Central West, and Deep 200 South trends. In the next quarter, we expect to complete more exploration and definition drilling in these areas, which should boost reserves and reserves and continue to extend mine life,” Baker said during a teleconference in November. Deep 200 South had some of the widest and highest grade intercepts in recent history at the mine and include 48.0 oz/ton silver, 0.07 oz/ton gold, 6.60 percent zinc and 3.3 percent lead over 26.7 feet and 32.5 oz/ton silver, 0.64 oz/ton gold, 17.0 percent zinc and 7.3 percent lead over 35.0 feet. Similar southward trending mineralization remains open along the 5250 and Gallagher trends, and the Southwest Bench and NorthWest-West zones are open to the southwest.

Greens Creek holds current proven and probable silver reserves of 92.5 million ounces, 713,000 ounces of proven and probable gold reserves as well as 256,130 tons of lead and 677,940 tons of zinc in proven and probable reserves.

There are an additional 9.4 million ounces of silver measured and indicated resources and 31.8 million ounces of silver inferred resources. Measured and indicated gold resources measure 72,000 ounces and inferred gold resources measure 216,000 ounces.

To facilitate at least another decade of production at Greens Creek, Hecla is planning a $30 million expansion of the mine’s tailings plant to be built in 2015 and 2016. Luke Russell, Hecla’s vice president of external and environmental affairs, said the company has secured the final permit needed for the two-year tailings facility expansion, which will cover 18 additional acres.

Perpetual water treatment

At Greens Creek, all mine water and water used in the milling process is treated in water treatment plants and then released into Hawk Inlet under strict specific discharge permit limits. The need for water treatment sometimes results when certain types of mineral deposits, such as massive 

see GREGS CREEK page 14
Donlin, the governor’s push to get North Slope natural gas to market could reduce the notoriously high oil prices for existing Interior Alaska gold mines such as Fort Knox and Pogo and improve economics of the region’s potential future mines such as Livengood gold and Globe Creek limestone.

Alaska’s operating mines and other industries, meanwhile, are already benefiting from lower fuel prices resulting from less than US$50 per barrel oil.

**Globe Creek limestone**

In addition to building a parallel natural gas pipeline, Gov. Walker’s ideas for boosting Alaska’s income, understandably, are focused on getting more oil flowing through the 800-mile trans-Alaska pipeline, currently running at about 25 percent capacity. As a result, the state’s mining sector has been largely lapped with Alaska’s other industries such as tourism, fisheries and air cargo.

The one mining opportunity the governor did single out in his speech to lawmakers is a project few Alaskans are aware of, the world-class Globe Creek limestone deposit north of Fairbanks.

“We should be making and exporting cement north of Fairbanks given all the limestone available and the rail and highway infrastructure available,” said Gov. Bill Walker, Alaska.

MacKenzie, according to a 2007 rail link analysis penned by Paul Metz, a professor of geological engineering at University of Alaska Fairbanks.

The market for Portland cement made from Globe Creek limestone is considered to be at least 10 times larger than that for lime. At the time of Metz’s analysis, Alaska, alone, used nearly 300,000 tons per year of this building material.

An economically competitive lime and cement plant, however, needs a reliable and low-cost source of fuel for the kilns needed to transform the limestone into a marketable product. Located adjacent to the Dalton Highway, which connects the North Slope to Fairbanks, and along the presumed path of any future natural gas pipeline, Globe Creek is positioned for any scenario that delivers North Slope natural gas to Alaska and world markets.

At a quarry rate of 3,320 tons per day, the 1.6-billion-ton Globe Creek deposit could provide limestone, Portland cement and fertilizer to Alaska and the world for more than 100 years, according to Metz’s estimates.

**Ambler mega-project**

While getting gas to market and other economy strengthening initiatives will help the income side of the equation in the long term, cuts in state spending are more immediate steps being contemplated by Walker and state lawmakers.

The governor’s first order of business was a temporary suspension of all ‘mega-projects’ being funded by the state.

“On Dec. 26, I took immediate action. I issued an administrative order directing that all ‘mega-projects’ stand down until we can access their overall costs and benefits to the state,” said Walker.

Among the big-budget projects being re-evaluated, the Ambler Mining District Industrial Access Road is one aimed specifically at supporting mining in Alaska.

This 200-mile road would link the Ambler Mining District to world markets. Some $8 million of state funds had been earmarked for the project in a budget proposed by former Gov. Sean Parnell. The project has no such support in Walker’s budget.

The Ambler road project was transferred from the Alaska Department of Transportation and Public Facilities to the Alaska Industrial Development and Export Authority in 2013.

AIDEA – a private corporation created by the Alaska Legislature in 1967 to promote, develop, and advance economic growth and diversification in Alaska – is not solely dependent on state funding to advance the Ambler Road, or any of the other projects in its portfolio.

In fact, the success of AIDEA’s investments in large infrastructure projects like the Delong Mountain Transportation, a road and port facility linking the Red Dog mine to world markets, are profitable for the authority and state.

“These revenues not only cover our operational expenditure, we also pay an annual dividend of upt to 50 percent of our revolving fund net income to the State of Alaska general fund,” said AIDEA executive Ken Brodik.

This dividend equaled US$17.65 million for 2014, bringing the total AIDEA has paid to the state’s general fund to US$373.5 million.

To move forward with the Ambler Road, AIDEA will need the funds to complete an Environmental Impact Statement for the project.

If federal agencies approve the road project for permitting, then AIDEA will re-evaluate whether building the road is a good investment for the authority and state.

The Upper Kobuk Mineral Projects, a partnership between NovaCopper Inc., a mineral exploration company, and NANA Regional Corp., the Native regional corporation that represents the Iñupiat of Northwest Alaska, would likely provide the financial base for repaying the cost of building a road to Ambler.

In 2013, NovaCopper and AIDEA entered into a memorandum of understanding that allows AIDEA to investigate various ways to fund the construction and maintenance of the Ambler Road and create the framework by which NovaCopper will repay the investment by developing mines at one or more of its high-grade copper deposits in the area.

The two most advanced deposits, Arctic and Bornite, currently has more than a 9.5 billion-pound copper-equivalent resource, including zinc, lead, silver and gold by-products at Arctic.
results from the BRX and Klaza zones, two of nine main mineralized structures identified at the Klaza property to date. Rockhaven CEO Matt Turner says the company plans “to substantially expand the resource this coming year while advancing development-related engineering and metallurgical studies.”

DOLLY VARDEN SILVER Jan. 23 reported the appointment of former Hecla Mining Co. consultant Rosie Moore as interim president and CEO. Former Dolly Varden President and CEO George Heard has resigned and stepped down from the board. Moore, who formerly represented Hecla on the Dolly Varden board of directors, has 30 years mining experience. She has worked as an analyst for a globally invested mining-focused hedge fund and as a mineral exploration geologist. Moore formerly served as CEO and director of Geoinformatics Exploration Inc., managing its takeover of Rimfire Minerals Corp. to yield Kiska Metals Corp. Hecla can now nominate another representative to the Dolly Varden board. John King Burns has returned from a leave of absence and will serve as co-chairman of the board with Allan Marter.

KAMINAK GOLD CORP. Jan. 27 reported results from 21 holes of infill drilling from the Kona deposit and the discovery of a new mineralized zone at the company’s Coffee gold project in the Yukon Territory. The only granite-hosted of four gold deposits considered in a 2014 preliminary economic assessment, Kona contributes roughly 26,000 ounces of recoverable oxide gold at an average diluted grade of 1.22 grams per metric ton gold. Though contributing relatively few ounces in the current PEA, Kaminak says Kona, together with the recently discovered and high-grade Kona North, represent key resource upside targets at Coffee. The company says the 1,685 meters drilled at Kona in 2014 confirmed the existing Kona geological interpretation, providing additional confidence in the location, geometry and continuity of the mineralized lodes.

Condemnation drilling at Coffee cut 13.72 meters of 3.24 g/t gold within the buffer zone of the proposed valley-fill heap leach facility about 900 meters south of the Kona deposit. While follow-up at this new discovery, known as Dolce, is required, it is not expected to impact the proposed location or design of the heap leach facility. Other notable intercepts from the 4,157-meter condemnation program, included 6.8 g/t gold over 3.5 meters at the northern edge of the proposed waste dump, interpreted as the western extension of the Sumatra deposit, and 1.08 g/t gold over 13.71 meters at the proposed north dump, interpreted as the northern extension of the Supremo T7 deposit. Kaminak says this drilling has not materially impacted the location of any infrastructure; however, some design modifications may be required.

GREENS CREEK sulphide deposits, are mined.

“We work hard to protect water quality and to conserve usage through efficient operations, engineering, and training” at Greens Creek, Hecla said on its website. Federal and state agencies completed a review of the mine’s reclamation and closure plan in 2014, and for the first time, added a requirement that Hecla provide financial security to ensure “perpetual” treatment of water discharged from the mine after it closes. Hecla reported in recent regulatory filings that it updated its asset retirement obligations in early 2014 for Greens Creek to reflect the revised reclamation and closure plan. The company has estimated undiscounted costs of roughly $102.7 million for the plan, reflecting a $28.8 million increase from the $73.9 million cost estimate in the previous plan. Hecla said the increase primarily resulted from the new requirement to include perpetual water treatment in the closure plan.

The new requirement resulted in an increase to Hecla’s ARO asset and liability of $8.0 million, after discounting the estimated costs to present value. In the third quarter of 2014, as part of the revised reclamation and closure plan, the company said it increased its bonding for the mine to roughly $68.9 million. Sarah Samuelson, a spokesman for the U.S. Forest Service, said the requirement for perpetual water treatment at Greens Creek reflects an anticipated need to treat water discharged from the mine indefinitely.

“They won’t have a lot of water to treat, but it must be treated forever,” she added. Hecla has a solid record of compliance with Alaska’s water quality standards at Greens Creek, but the geochemical materials that will remain in the deposit when the mine closes will likely be very mobile when they come in contact with water, said Allan S. Nakankish, supervisor for the Mining Section of the Division of Water at the Alaska Department of Environmental Conservation.

“If we cannot predict with confidence when water treatment will no longer be needed, we say, ‘perpetual’ or 100 years, which is the foreseeable future,” said Kyle Moselle, large mine project manager in the Office of Project Management and Permitting at the Alaska Department of Natural Resources. With the new requirement in place, there is an expectation that water draining from the mine site will continue to be treated, and Alaska has financial assurance that this will occur going out 100 years, Moselle added.

Massive sulphide deposits Greens Creek is one of only two mines in Alaska that produce metals from massive sulphide deposits; the Red Dog Mine is the other. Nakankish said a similar review of the reclamation and closure plan for Red Dog is currently underway, but it is still early in the process. Ironically, naturally-occurring drainage into one of the main creeks affected by mining had no aquatic life before zinc and lead production began at Red Dog. After nearly 25 years of production at the Northwest Alaska mine, Nakankish said Red Dog’s owners have actually improved the water quality of the formerly “sterile” creek to the point where it is habitable for aquatic life; “Fish and other wildlife are slowly moving upstream.”

Continued from page 12
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Operations, gas line transition focus

Report from governor’s oil and gas team prioritizes field operations, gas, tax policy, government efficiency, offshore development

By KRISTEN NELSON
Petroleum News

Field operations and gas projects topped the list of priority issues identified by the oil and gas working group of the transition team conference which Alaska’s governor-elect, Bill Walker, and Lt. Gov.-elect Byron Mallott assembled in November after their election. The transition report was released Jan. 21 and is available online at http://gov.alaska.gov/Walker/transition-2014.html.

In releasing the report Walker said he doesn’t expect to agree with every suggestion, but said he would use the reports to measure the interests of Alaskans in issues at hand.

“This living document, sustained by the relationships built during the conference, will be a valuable tool as we begin the relationships built during the conference, but said he would use the reports to measure the interests of Alaskans in issues at hand.

“Providing access for “new competitive entrants” was discussed, especially providing them with “reasonable and timely access to existing field facilities.” The report said there was contention in the group as to how best to provide that access and whether commercial negotiations were sufficient “due to disparities in the relative market power among the stakeholders.” The report said there was agreement that regulation by the state of access to facilities, if adopted, needed to be “time-ly, on reasonable terms, and sensitive to an existing owner’s investment in and legacy use of such facilities.”

Existing regulatory issues

On existing regulations there was concern among many that requirements for many routine approvals “were ill-defined and inconsistently applied,” and that the administration needed “to issue regulations which more efficiently, consistently, and timely resolve the approval process” for routine activities.

DR&R, dismantling, removal and restoration, were discussed and the group agreed the state’s approach to DR&R needed to be reviewed “to make sure that the risk is equitably shared among stakeholders.” A problem of potential regulatory overlap was identified, and there were comments that smaller oil companies “are frustrated by the introduction of DR&R bonding requirements into the lease assignment process.” There was agreement that greater clarity and consistency is needed and “that the risks associated with DR&R should be more broadly distributed.”

Another issue discussed was the industry-supported 470 fund, used for oil spills. The report noted that while only the oil industry pays into the fund, it is used “largely in support of commercial shipping and other industry groups.” The report said the group favored expanding funding to include other industry groups benefitting from the fund.

Gas project

Construction of a large-diameter natural gas line for a liquefied natural gas project is a “central goal for the new administration,” the group said, urging the Walker administration to maintain momentum on the Alaska LNG project, but also to “achieve a commitment to build the AK LNG project through an appropriately disciplined process.”

The administration should also conduct due diligence necessary to understand and assess the project, “move forward without inappropriate risk on either side,” ensure Alaska’s needs are met and encourage cooperation between the Alaska LNG project and the in-state project, the Alaska Stand Alone Pipeline.

Some members of the group were concerned that there was not a current commitment to build the Alaska LNG project; others noted several steps need to be taken by all participants, including the state, before a commitment can be made.

There was concern about assessing the LNG project in terms of how best to bring the greatest net revenue to Alaska, as well as contentment over the extent to which the new administration should be bound by agreements reached by the prior administration in Senate Bill 138 and the Heads of Agreement.

Most in the group wanted a project team formed to gather information, analyze the project and establish communication with the new administration and the industry on revenue sharing between the state and industry.

While there was agreement that the administration should maintain momentum for the construction of a large-diameter gas line; some wanted to also see momentum maintained for the in-state line, the Alaska Stand Alone Pipeline.

The group was concerned that industry may not progress the Alaska LNG project, or that the state “may accept an inappropriate amount of risk or uncertainty.”

Learn more about Nabors’ new drilling technologies at Nabors.com.

The national trend of decreasing gas volumes has prompted energy companies to find new ways of preserving natural gas. A few years ago, the Canadian company Artex Exploration Inc. found a new approach in the Montney formation in northeastern British Columbia.

By GARY PARK
For Petroleum News

A rtek Exploration, a nimble-footed Canadian exploration and production junior, has posted some of the strongest initial results from its program in British Columbia’s liquid-rich Montney play. A horizontal well that the company drilled and completed during the fall quarter of 2014 yielded a controlled 1,147 barrels of oil equivalent per day (70 percent oil and condensate), rated as one of the best 30-day liquid rates from the Montney or any other formation in the province.

It is also a step forward from Artex’s initial well, which averaged 903 boe per day (77 percent liquids) in its first 30 days, making the well among the leading two during the first three quarters in British Columbia. Artex has a 59 percent working interest in almost 100,000 acres of Montney rights in the greater Inga/Firewood area, which is being developed with four to eight wells per section, making it the focus of the company’s program.

But its other play in the Doig formation has also generated positive results, with two of one horizontal wells flowing at 1,959 boe per day (73 percent oil and condensate) over its initial 30 days. The latest Inga/Firewood well was completed with a 36-stage slickwater frac, while the Doig well was completed with a 22-stage slickwater frac. The second Doig well, completed with a 29-stage slickwater frac, averaged a controlled 1,280 boe per day (77 percent oil and condensate).

To strengthen its prospects in Inga/Firewood, Artex — in partnership with Kelt Exploration — acquired 56,000 gross acres (with a 50 percent working interest) in December, including 2,275 acres of Montney rights, for $510.6 million.

Artex’s stake includes 2.7 million cubic feet equivalent per day (67 percent gas) of production and proved plus probable reserves of 13.2 billion cubic feet equivalent (53 percent gas), plus four compression facilities, 170 miles of pipeline and an oil battery/terminal.

The company expected 2014 volumes to average 1.1 million cubic feet equivalent per day and proved plus probable reserves of 22.2 billion cubic feet equivalent as well as 22,690 net acres in Alberta.

Artex, which started as a private company 10 years ago, describes its primary objective as deploying “strong technical expertise” in its core areas, along with “opportunitistic acquisitions” that have drilling upside and offer a competitive advantage.

--- ERIC LIDII

NATURAL GAS

Chugach, AIX sign supply agreement

Chugach Electric Association could soon start buying natural gas from AIX Energy LLC under the terms of a supply agreement the two parties closed toward the end of last year.

The deal is the first since the Houston-based AIX Energy acquired the Kenai Loop field from previous operator Buccaneer Energy Ltd., which filed for bankruptcy in late May 2014.

“The contract provides flexibility in both the purchase price and volumes, with specific prices and volumes to be determined by each transaction,” Chugach Senior Vice President for Strategic Development and Regulatory Affairs Lee D. Thibert told the Regulatory Commission of Alaska on Jan. 15. That said, the contract caps prices at $4.26 per thousand cubic feet and caps volumes at 300 million cubic feet, meaning that Chugach would spend no more than $1.9 million during the nearly yearlong contract.

Interpretable contract

The interpretable contract allows Chugach or AIX Energy to choose to buy or sell volumes as needed, although Chugach said it expected to need the available volumes.

Although the companies signed the deal on Dec. 22, 2014, it only came to light after Chugach asked regulators for permission to recover the gas purchases through its rates.

While utilities typically seek regulatory approval for gas supply agreements, Chugach is maintaining that regulatory approval isn’t required for deals lasting less than a year.

Given the leap year in 2016, the deal between Chugach and AIX Energy holds the distinction of running for 365 days and also for one day shy of a full calendar year.

The state is taking comments on the request through Feb. 20.

Although AIX Energy acquired the Alaska assets of Buccaneer through a bankruptcy auction last year, Buccaneer is still the official leaseholder, according to state records.

--- ERIC LIDII

ENVIRONMENT & SAFETY

EPA proposes revised spill response regs

The Environmental Protection Agency has proposed regulations specifying new and revised toxicity and efficacy tests for dispersants and other chemicals used in offshore oil spill responses. The new regulations, which come in reaction to issues raised during the 2010 Deepwater Horizon oil spill in the Gulf of Mexico, also include requirements for manufacturers to provide additional health and safety information for the regulated materials.

The regulations also spell out revised area planning requirements for the authorization of the use of chemical and biological agents, as well as new dispersant monitoring requirements when dealing with some oil discharge situations.

“Our emergency officials need the best available science and safety information to make informed spill response decisions when evaluating the use of specific products on oil discharges,” said Mathy Stanislaus, assistant administrator for EPA's Office of Solid Waste and Emergency Response. “Our proposed amendments incorporate scientific advances and lessons learned from the application of spill-mitigating substances in response to oil discharges and will help ensure that the emergency planners and responders are well-equipped to protect human health and the environment.”

According to a preamble to the proposed regulations, the response to the Deepwater Horizon spill involved the deployment of more than 1 million gallons of dispersant onto surface oil slicks over a three-month period, and the injection of three quarters of a million gallons of dispersants into the oil flowing from the out-of-control well. EPA is now trying to address questions over the efficacy, toxicity, environmental tradeoffs and monitoring challenges that this dispersant usage raised, EPA said in the preamble.

--- ALAN BAILEY

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ENVIRONMENT & SAFETY

DOE cites carbon sequestration success

The Department of Energy has announced the successful storage of 1 million metric tons of carbon dioxide in a deep saline formation in Illinois. The project comes as part of a major DOE sponsored carbon capture and storage research program involving partnerships between DOE, state agencies, universities and private companies. DOE says that the Illinois project contributes to President Obama’s all-of-the-above energy strategy.

“This milestone is an important step towards the widespread deployment of carbon capture technologies in real-world settings,” said Energy Secretary Ernest Moniz. “The successful testing of these technologies and the lessons learned support a range of opportunities in the region, while also reducing the amount of emissions in the atmosphere and protecting the planet at the same time.”

The Illinois project involves the capture of carbon dioxide from the Arthur Daniels Midland Co.’s ethanol production facility in Decatur, Illinios, the compression of the gas and the transportation of the gas through a mile-long pipeline for injection into the Mount Simon sandstone formation 7,000 feet below the surface. The injection test, which began in 2011, performed better than expected, with pressures sustained well below regulatory limits, DOE says. A 300-foot thick shale formation acts as a seal inhibiting upward migration of the injected carbon dioxide, which is expected to remain hundreds of feet below the shale for 100 years, the department says.

The Illinois State Geological Survey is leading a consortium called the Midwest Geosequestration Consortium to evaluate options for carbon sequestration and storage in the Illinois basin, a 60,000-square-mile geologic basin that underlies most of Illinois, southwestern Indiana and western Kentucky, DOE says.

FINANCE & ECONOMY

Oil sector should see job growth in 2015

Even with declining oil prices, the Alaska Department of Labor and Workforce Development expects inertia to keep oil industry employment growing this year.

The department expects the oil and gas sector to add 200 jobs this year, which would represent 1.4 percent growth over 2014, according to an analysis from state economist Caroline Schultz in the January 2015 issue of Alaska Economic Trends. According to preliminary figures, the oil and gas sector, which includes service companies, added some 500 jobs in 2014, which would represent 3.5 percent growth. Current oil industry employment is about 14,800, up 200 over a year ago, according to the state.

The growth in employment will come from development work at the ExxonMobil-operated Point Thomson unit, the ConocoPhillips-operated Kuparuk River unit and Colville River unit, appraisal activities from Repsol E&P USA and Caesia Natural Resources Alaska.

Already this year, BP Exploration (Alaska) Inc. laid off some 275 employees as part of its sale of assets to Hilcorp Alaska LLC. Hilcorp is expected to rehire many of the employees. And CH2M Hill recently ended attempts to sell most of its Alaska operation.

The small increase in oil sector jobs will be an anomaly this year, according to the department, which is predicting flat job growth for the state overall, as small gains in the private sector offset small losses in the public sector, particularly federal employment.

Oil industry employment in Alaska is closely correlated with oil prices. Over the past quarter century, the two have moved nearly in lockstep, despite steadily declining production and various fiscal systems, according to a 2008 study from the department.

FALLING oil prices likely to trigger a reduction in royalty rate on three leases at Eni US Operating’s offshore North Slope unit

Nikaitchuq primed for royalty reduction

Falling oil prices likely to trigger a reduction in royalty rate on three leases at Eni US Operating’s offshore North Slope unit

Alaska oil prices were averaging some $120 per barrel, although the specifics of the arrangement would temper the impact.

The exact financial value of the change is difficult to measure because it depends on the price of oil and the amount of production, both of which are always fluctuating. But if oil prices remained just below the $4/8 per barrel threshold and oil production remained constant, the state would lose some $1.026 million per month from the reduced royalty.

Eni requested royalty modification in October 2007, as it was deciding whether to sanction a major development effort at the Nikaitchuq unit, off the coast of Oliktok Point.

After determining that the project “does not meet prudent-investor standards for economic feasibility,” the Alaska Department of Natural Resources approved the request in January 2008. The approval came with terms, many of which are important today.

First, the 5 percent royalty rate would only go into effect when oil prices fell below $42.64 per barrel, a threshold adjusted for inflation each May for the coming year.

Through the end of April 2015, the threshold is $48 per barrel, according to the state.

Regardless of oil prices, the royalty modification would also go into effect if production falls below 4,000 barrels per day during the first 10 years of sustained production.

Second, the royalty rate would only go into effect if Eni spent $822 million on Nikaitchuq activities through the first six years of development and $1.398 billion through the first 11 years. The company has met the first target, according to the state.

Third, the royalty reduction would only cover production from the Schrader Bluff OA reservoir. Recently, Eni has been appraising the potential of the Schrader Bluff N reservoir and has expressed an interest in a Sag River reservoir at Nikaitchuq. If the company ultimately sanctions those pools, neither would qualify for royalty reduction.

Fourth, the royalty reduction only applies to production from leases committed to a participating area within six years of the project being sanctioned. So even though Eni is currently producing oil from 11 leases at the Nikaitchuq unit, only production from the three leases in the Schrader Bluff participating area qualify for royalty reduction.

Fifth, the royalty modification program ends after 25 years of sustained production. When Eni sanctioned a $1.45 billion development program at Nikaitchuq in January 2008, Alaska oil prices averaged some $91 per barrel. When the unit entered sustained production in April 2011, Alaska oil prices were averaging some $120 per barrel.

On January 23, Alaska oil prices averaged $46.74 per barrel.

The royalty modification program has been used somewhat sparingly in Alaska, with only three projects approved for modified royalty terms over the past two decades.

Before Nikaitchuq, the state modified the royalty rates on nine leases at the Pioneer Natural Resources Alaska Inc. operated Oooguruk unit. Earlier this year, the state lowered the royalty rate on the five Oooguruk leases associated with the Nuna satellite of the offshore field, which is now operated by Caesia Natural Resources Alaska Inc.
CHUKCHI DRILLING

to drill this coming summer season.” But Shell still tells quite a few of its key permits for the Chukchi Sea operations, he said.
The company’s Chukchi drilling plans have been on hold as a consequence of a continuing appeal against the legality of the 2008 lease sale in which the company purchased its Chukchi Sea leases — the Bureau of Ocean Energy Management anticipates issuing a new record of decision for that lease sale in March, in response to a court order resulting from the appeal. The agency cannot approve Shell’s Chukchi Sea exploration plans until the new lease decision has been issued.

In addition, the 9th Circuit Court of Appeals has yet to rule on an appeal against the validity of Shell’s oil spill response plan for its Chukchi Sea operations.

Shell Chief Financial Officer Simon Henry said that this year’s drilling operation would cost more than $1 billion, if it goes ahead. And if the operation cannot proceed, it will still cost nearly $1 billion, because of Shell’s commitment to retain the fleet of ships that it needs for the drilling. Henry said, adding that the project is as much an exercise in logistics as it is a drilling operation. Van Beurden likened the complex supply chain required for drilling in the remote Chukchi to running a North Sea drilling operation out of New York.

Henry said that given the cost of Shell’s Alaska venture and the company’s total planned capital expenditure of $4 billion on worldwide exploration in 2015, spending outside Alaska would be limited to $3 billion, a reduction from 2014 spending levels.

In the Chukchi Sea, Shell plans to drill in its Burger prospect, about 80 miles offshore the western end of the North Slope, using two drilling vessels: the Noble Discoverer and the Polar Pioneer. Burger contains a known major natural gas pool, but Shell thinks that the structure is also likely to hold oil.

—ALAN BAILEY

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goal of bringing affordable natural gas to Interior Alaska” and said its acquisition of Pentex would promote an integrated gas distribution system that can be built and operated in a more efficient manner for the benefit of Fairbanks and North Pole residents and businesses.

Fairbanks Natural Gas delivers trucked liquefied natural gas from Cook Inlet to Fairbanks, serving some 1,120 customers.

A second gas distribution utility, the Interior Gas Utility, certified by the

In updating its short-term forecast, CAPP estimated capital spending will total C$46 billion compared with C$69 billion in 2014.

Governments expected to lose C$14.3B

The Conference Board of Canada said the Canadian government alone will lose C$4.3 billion this year from the collapse of oil prices, while provincial revenues will drop by almost C$10 billion.

However, the board is more optimistic on the price outlook than other forecasters, with its economists reckoning that the market has likely hit bottom.

The report forecasts that West Texas Intermediate will climb above US$60 a barrel by the end of 2015, with an average price for the year of US$56, compared with US$89.20 in 2014. The board said the Albertan economy could slip into recession, a claim rejected by Premier Jim Prentice, while Saskatchewan could slip into recession, a claim rejected by Premier Brad Wall.

Henry said, adding that the project is as much an exercise in logistics as it is a drilling operation. Van Beurden likened the complex supply chain required for drilling in the remote Chukchi to running a North Sea drilling operation out of New York.

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—ALAN BAILEY

CARSON, KEVIN NELSON

Walker names new AOGCC commissioner

Alaska Gov. Bill Walker has named a new commissioner to the Alaska Oil and Gas Conservation Commission. Michael Gallagher replaces David Mayberry in the public seat on the commission.

In an email the governor’s office said Gallagher has more than 38 years of experience in the oil and gas, civil and vertical construction industries and cited his “extensive knowledge in project management, maintenance and operations, and human resource management.”

Gallagher most recently was project manager for the Alaska Laborers Training School, overseeing construction of the $11 million facility.

Previously Gallagher spent more than 17 years as business manager for Local 341 of the Laborers International Union of North America. Gallagher also served as vice president of the Alaska AFL-CIO for more than 10 years.

Mayberry, appointed by former Gov. Sean Parnell in July, had not been confirmed by the Legislature.

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Northern Air Cargo announces new hires and promotions

Anchorage based Northern Air Services said it recently appointed Dave Squier to chief operating officer of the company. Squier previously held the position of vice president of cargo services of Anchorage based subsidiary Northern Air Cargo. In his new capacity Squier will have oversight of cargo and ground operations at both NAC and Honolulu, Hawaii-based subsidiary Aloha Air Cargo. Northern Air Cargo also recently hired Sami Glascott for the position of chief operating officer. Glascott previously served as director of sales for NAC and formerly as president and CEO of the Anchorage Chamber of Commerce and regulatory affairs manager at the Alaska Oil and Gas Association. Glascott holds a masters degree in public administration from the University of Alaska Anchorage, a Foraker Certificate in non-profit management and a bachelors degree in geology from Colorado College. Brian Heath has assumed the position of general manager of Northern Air Cargo.

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Northern Air Cargo

DRIVE SQUIER
SAM GLASCOTT

GCI Industrial Telecom celebrates 5 years in Texas

GCI Industrial Telecom, a division of GCI, said it is celebrating the fifth anniversary of its field office in Houston, Texas. GCI Industrial Telecom continues to support the communication needs of the energy sector throughout Alaska and the Gulf of Mexico/Texas regions with proven technical and engineering expertise and competitive professional services.

“Our clients asked us about 6 years back for a bigger presence in the Houston and Gulf of Mexico markets and we responded. Our team continues to grow, and today we manage over 20 satellite systems and have over 20 full-time team members based out of Texas and Louisiana. We are building relationships built on trust and performance,” said GCI Industrial Telecom Senior Director Rick Hansen. GOM Regional Manager Jon Legato added “Our clients share our focus on safe, competitive, and professional telecommunications services. Our operations and maintenance team becomes an integrated part of our clients’ operations, especially on their offshore facilities. We are bringing value to our clients’ projects.”

With fully staffed offices in Deadhorse and Anchorage, Alaska, and Houston, Texas, GCI Industrial Telecom employs more than 150 professional telecommunication engineers, project managers and technicians to support the full life cycles of industrial and remote operations. For more information visit www.gci.com/industrialtelecom or call toll-free at 877-411-1484.
Johnson: I think that we have to continue to advance a natural gas pipeline. We’ve worked very hard on that. We’ve done some very good work on that. That’s one of my top priorities. I think it’s important to the committee and to the legislature as a whole. I am a little concerned that there is a perception that it’s being slowed down. We have to keep an eye on the future. Budgeting is tough — budgeting is going to be very difficult. It’s going to be the weight round everyone’s neck. We can’t abandon our children. We can’t abandon future generations. We’ve put away money for occasions such as this. As the governor says, I don’t think we are in a crisis either but I think we ought to be very concerned that we spend money wisely, and we do govern the right way. Once again we can’t abandon projects that are going to be a revenue source and a source of reasonable energy for the Interior and hopefully all of Alaska, and diversify our economy. The industries are available once you get a dependable energy source. I see it as a way to diversify and we can’t abandon them. If you go back to the ’80s Susitna Dam was abandoned because of the price of oil. The Knik Arm Bridge was abandoned because of the price of oil. If we had a Susitna Dam and were paying less for electricity, who knows what industries could have sprung up. It’s important to me that we not lose vision of the future while being very cognizant of what’s going on today in terms of money.

Petroleum News: Have you heard enough from the governor yet on his vision for the gas line?

Johnson: No I haven’t. I’m concerned about his continued lawsuit for Point Thomson. If you talk to anyone who has been around in this building for a while they will tell you that without Point Thomson, there will be no gas line. That is a given. There is not enough gas up there to continue to bring the oil up and fuel that pipeline. So without it, it’s gone. I’m concerned that the governor is still involved in that lawsuit. The future of two-way radio.

Petroleum News: Now, he did say last week that it will be resolved. He did say yes when asked whether that meant out of court.

Johnson: Well, is that a settlement? Is that him dropping it? Is it going to be something that adds expense to it? So I don’t know the answer, so I’m still concerned. Is it settled on his part because he’s turned it over to someone else? I want to know the definitions of settled. Is it for him or is it really going away? So those are things I want to see. He uses terms like tidewater. Now he explained that he’s turned it over to someone else? I want to see things. He uses terms like him or is it really going away? So those concerns I want to see. He uses terms like that him dropping it? Is it going to be in the court. [He did say in the week that it will be resolved. He did say yes when asked whether that meant out of court.]

Petroleum News: It sounds like you’re willing to listen and offer a benefit of the doubt still.

Johnson: That’s absolutely it. I wouldn’t be doing my job if I wasn’t. I’m not the smartest in this building. I’ll tell you that right now. There are people who know a lot more than me. So I depend on those people. I’m pretty hard to fool. I’m really hard to fool twice. I’m going to give them the benefit of the doubt, but I’m not going to wait very long if I see things going off track before I start screaming and hollering and using what little power I have to bring it back. The ultimate goal is to monetize that resource. Every delay and every bit of lack of confidence in a partner, that indecision causes great consternation in board rooms. I can just see the boards of Exxon, BP and Conoco are sitting around and saying what’s he going to do? I’m sure they are saying that a lot. I hate to use the term alignment because it’s over used, but unless we have a certain alignment, this isn’t going to work.

Petroleum News: On the topic that never seems to go away: oil taxes. I know oil taxes didn’t cause the budget shortfall. What’s your take on that?

Johnson: The budget shortfall is because of oil prices. And we have a spending problem. And we have a revenue problem. The way you solve that problem is the price of oil going up and getting more oil in the pipeline. I think SB 21 gets more oil in the pipeline. Will it go away? No. But there will be disingenuous people out there who had a different agenda. They lost the vote saying we need to change it. I think that the production tax is one element of SB 21. Now, are there elements of that package that may not have been perfect? No. If we don’t have a healthy oil industry we will not have a natural gas pipeline. If the oil companies decide they don’t want to continue to develop and continue to invest, you’re not going to have a bunch of companies coming in here saying let’s invest in gas. It’s not going to happen. So we have to have that healthy oil business to keep TAPS going and I think SB 21 is our best shot so far. Time will tell, but I’m very reluctant to start tweaking some of those levers.
nation’s domestic energy resources is a key part of the president’s efforts to support American jobs and reduce our dependence on foreign oil,” said Interior Secretary Sally Jewell when announcing the draft plan. “This is a balanced approach that would make available nearly 80 percent of the undiscovered technically recoverable resources, while protecting areas that are simply too special to develop.”

The proposed plan adds the Hanna Shoal area of the Chukchi Sea to the list of areas excluded from oil and gas leasing because of environmental concerns. Interior says that scientific research has found this area to be of critical importance to many marine species, including Pacific walruses and bearded seals. Four other areas withdrawn from leasing in the Chukchi and Beaufort seas had already been excluded from leasing in the current 2012-2017 lease plan.

The Hanna Shoal lies under a broad area of relatively shallow water in the northeastern Chukchi Sea.

**Presidential withdrawals**

In an order coinciding with the publication of the draft lease sale plan President Obama announced that he is withdrawing indefinitely from future lease sales the exclusion areas that are specified for the Chukchi and Beaufort seas, including the Hanna Shoal. The rights of the holders of existing leases in the withdrawn areas will not be altered by the president’s order. Under the terms of the lease sale plan, the exclusion areas had been deferred from leasing, leaving open the possibility of incorporating the areas into a future lease sale program. The president’s withdrawal order makes the exclusions more permanent in nature.

A statement from the White House says that, in placing 9.8 million acres of the Beaufort and Chukchi seas indefinite-ly off limits to leasing, President Obama is taking another step to protect the nation’s most valuable natural resources. “Teeming with biological diversity, these areas in the Beaufort and Chukchi are part of one of the last great marine wildernesses left untouched by development,” the statement says.

The statement also comments that the president’s all-of-the-above energy strategy has supported economic growth and helped reduce U.S. dependence on foreign oil.

“But even as we consider new places that may be appropriate to responsibly develop oil and gas, we can take meaningful steps to protect areas that matter most for our environment, our Native communities and our cultural identity,” the statement says.

**Plan components**

While Interior has placed some new restrictions on future leasing in the Arctic offshore, the agency has at the same time broadened the continental shelf leasing program by including in its pro-posed five-year lease plan a lease sale in the Atlantic, off the U.S. East Coast. However, areas offshore the Pacific coast remain closed to oil and gas leasing, and a section of the eastern Gulf of Mexico remains off limits.

Under the proposed plan, a lease sale for the Beaufort Sea outer continental shelf would be held in 2020; a sale for the federal waters of lower Cook Inlet would take place in 2021; and a Chukchi Sea lease sale would be scheduled for 2022.

In addition to the new lease-sale exclusion area over the Hanna Shoal, the Chukchi Sea lease sale would continue to exclude a 25-mile-wide buffer zone along the coast, as well as some subsistence hunting areas in the Chukchi and Beaufort seas. The proposed plan says that some other potential areas of referral, such as the Barrow Canyon and Camden Bay, may be considered for the lease sale program.

**Cook Inlet**

In Cook Inlet, Interior proposes limiting its lease sale to the northern portion of the federal Cook Inlet planning area, to balance the need to protect endangered species with the need to make available areas with the highest hydrocarbon resource potential. As part of the lease sale program it may also prove necessary to instigate some land area deferrals to protect the critical habitats of the beluga whales and sea otters, the proposed lease sale plan says.

The North Aleutian basin in the Bristol Bay area remains excluded from oil and gas lease sales following President Obama’s December 2014 withdrawal of the area from future leasing. “Options for the Alaska region take into account the expressed support of the State of Alaska for OCS oil and gas activity in the Arctic areas and Cook Inlet, as well as the conditional support of the local Alaska Natives for a targeted leasing strategy, existing leases and/or activity in federal and/or state waters; significant estimated resources, and substantial industry interest,” the proposed plan says.

For the Gulf of Mexico, Interior plans to conduct a series of region-wide lease sales that would each encompass the entirety of available acreage in western, central and eastern Gulf — in the past there have been separate sales for the Each part of the Gulf. The plan envisions two Gulf of Mexico sales per year,
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ANWR PLAN

the central North Slope area that hosts the producing oil fields of Arctic Alaska, is thought to be highly prospective for oil and gas but for many years has been subject to a prohibition on oil exploration and development.

“Designating vast areas in the Arctic National Wildlife Refuge as wilderness reflects the significance this landscape holds for America and its wildlife,” said Secretary of the Interior Sally Jewell on Jan. 25 when announcing the publication of the final ANWR EIS. “Just like Yosemite or the Grand Canyon, the Arctic National Wildlife Refuge is one of our nation’s crown jewels and we have an obligation to preserve this spectacular place for generations to come.”

In response to the EIS publication, President Obama said that he was proud that Interior had put forward a comprehensive plan that would protect the refuge and designate new areas, including the coastal plain, for preservation.

“And I’m going to be calling on Congress to make sure that they take it one step forward by designating as a wilderness, so that we can make sure this amazing wonder is preserved for future generations,” the president said.

Walker angry

During a hastily convened press conference on Jan. 25 Alaska Gov. Bill Walker expressed his anger at the Department of the Interior’s decision. Walker said that during a phone call with Secretary Jewell he had expressed strong disappointment over the lack of discussion over the Fish and Wildlife decision before the decision was made.

“I’m very angry that this is happening,” Walker said. “They are robbing our economy away from us piece by piece.”

Walker said that he had explained to Jewell that Alaska is dependent on resource development and has an oil pipeline that is now three-quarters empty. And in response to Jewell’s comparison between ANWR and Yosemite or the Grand Canyon, Walker commented on the amount of commercial tourism-related activity in the two Lower 48 parks.

“I think it’s a quite a bit more than goes on in ANWR,” Walker said. “I’d love to be treated like the Grand Canyon or Yosemite in as the kind of commerce that goes on there responsibly.”

This ANWR decision is like banning tourism in Hawaii to keep Hawaii pristine, he said.

Plan of action

Walker said that litigation against the Fish and Wildlife decision would not be his first choice in responding to the decision. Rather than initiating a four- to six-year litigation process, the governor said that he and his team would put together a plan of action and that he would first reach out to other states and the public.

Kara Moriarty, president and CEO of the Alaska Oil and Gas Association, an oil industry trade association, expressed her anger at the Fish and Wildlife decision.

“This is offensive,” Moriarty said. “It’s offensive to Alaskans when we have the Arctic National Wildlife Refuge, already 92 percent of it is off limits to development. I think this decision sends the signal that the federal government is not allowing Alaska to be open for business.”

Congressional delegation

On Jan. 26 Alaska’s Congressional delegation expressed its displeasure at the Obama administration’s actions, referencing not only the ANWR decision but also a permitting decision in the National Petroleum Reserve-Alaska and a forthcoming outer continental shelf lease sale plan proposal, involving the withdrawal of some offshore lands from future oil and gas leasing.

“It is a one, two, three kick to the gut of Alaska’s economy,” said Sen. Lisa Murkowski. “We have said as a delegation that we will not stand it, we will not tolerate it, we will do everything we can to push back against an administration that has taken a look at Alaska and decided it’s a ‘nice little snow globe up there and we’re going to keep it that way.’ That’s not how you treat a state. Show us some respect.”

Rep. Don Young said that the Fish and Wildlife action violated ANILCA, the Alaska National Interest Lands Conservation Act, the act that established ANWR. ANILCA has a clause requiring an act of Congress before ANILCA’s scope can be extended.

“This brazen assault on Alaska only strengthens our resolve to push back,” Young said. “This latest decision, in clear violation of ANILCA’s ‘no more’ clauses, completely undermines the law and the many promises made to the Alaskan people. This is unacceptable and I am already beginning work in the House to ensure this assault is stopped dead in its tracks.”

“This attack on Alaska families and the middle class is deeply troubling,” said Sen. Dan Sullivan. “I pledge to do everything in my power to protect the economic growth and prosperity of our state, and defend the promises made to Alaskans under ANILCA.”

ASRC comments

The Arctic Slope Regional Corp., the Native regional corporation for the North Slope, expressed its opposition to the Fish and Wildlife decision.

“The people of the Arctic Slope region, specifically Kaktovik, have thrived in this area for over 10,000 years, and therefore fall outside of the definition of characteristics of wilderness,” ASRC said in a Jan. 26 statement. “The people of the Arctic Slope region, specifically Kaktovik, have conservation minded, and yet rely on responsible oil and gas development to sustain our communities. This proposed designation as announced would effectively slam the door shut on the substantial economic benefits that Alaska National Wildlife Refuge 1002 area is the easternmost coastal extension of the United States in the world. The findings from the well are commercially confidential.

ANWR and the 1002 area of the coastal plain

The story of the Alaska National Wildlife Refuge dates back to 1960 when the Arctic National Wildlife Range was established in the extreme northeast of Alaska. In 1980, under the Alaska National Interest Lands Conservation Act, an act that established a series of national parks in Alaska, the Wildlife Range was renamed the Alaska National Wildlife Refuge. Most of ANWR lies within a mountainous region of the eastern Brooks Range. However, about 20% of the oil and gas potential of the northern strip of the refuge, on the eastern extension of the North Slope coastal plain, section 1002 of ANILCA, while putting much of ANWR off limits to development, deferred a decision on future development on the coastal plain section of the refuge. That coastal strip became known as the 1002 area.

Under the terms of ANILCA the 1002 area can only be opened for oil and gas exploration if the U.S. Congress passes an act authorizing the opening. To date Congress has not passed the required act, despite strenuous efforts at various times to gain house, senate and presidential support for the enabling legislation.

However, in 1985 and 1986 Chevron and BP were able to drill a single exploration well, the KIC well, in the 1002 area in Native land southeast of the village of Kaktovik. The results from that well have remained commercially confidential.

Much promise

With the geology of the 1002 area being an eastern continuation of that of the central North Slope, where massive oil fields such as Prudhoe Bay and Kuparuk River are located, the 1002 area is thought to hold much promise as a target for new oil and gas exploration. A 2005 assessment by the U.S. Geological Survey estimated that there may be 10.2 billion barrels of undiscovered technically recoverable oil and 37.5 trillion cubic feet of undiscovered natural gas under the 1002 area.

Other than resources in Native land near Kaktovik, any oil or gas in the 1002 area belongs to the federal government. However, were oil production to start from the area, the state would be entitled to tax the production and would be paid a share of the federal royalties on the oil. And oil passing from ANWR into the trans-Alaska pipeline for transportation to market would improve the overall economics of the Alaska oil industry, hence indirectly further increasing state revenues.

—ALAN BALEY

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OCS SALES

including a sale from the current 2012-2017 lease sale plan.

Alaskans protest

President Obama’s withdrawal of areas of the Chukchi and Beaufort seas from future lease sales has triggered protests from Alaska officials.

“This administration is determined to shut down oil and gas production in Alaska’s federal areas — and this off-shore plan is yet another example of their short-sighted thinking,” said U.S. Sen. Lisa Murkowski, R-Alaska, the chairman of the Senate Energy and Natural Resources Committee. “The president’s indefinite withdrawal of broad areas of the Beaufort and Chukchi seas is the same unilateral approach this administration is taking in placing restrictions on the vast energy resources in ANWR and the NPR-A.”

“With today’s announcement, the Obama administration’s assault on Alaska moves from blocking development opportunities on millions of acres of land to taking enormous portions of the Arctic offshore off the table,” said Congressman Don Young, R-Alaska. “In defiance of all statewide elected officials and the Alaska legislature, this president has once again thumbed his nose at the Alaskan people as he opens another front in his ongoing war against our people, our communities, and our social and economic future.”

“The hits just keep coming from the federal government for Alaskans who want to control their own economic future,” said Kara Moriarty, president and CEO of the Alaska Oil and Gas Association. “The proposed OCS program released today by the U.S. Department of the Interior and the Bureau of Ocean and Energy Management promises more delay, more uncertainty, and more restrictions.”

Environmentalists respond

Environmental organizations, while welcoming restrictions on leasing in areas such as the Hanna Shoal, blasted the Obama administration’s decision to schedule further lease sale for the Arctic outer continental shelf.

“The Arctic Ocean is the worst possible place we could allow drilling. The push to develop the region has put our oceans at risk, led to controversy, litigation, government investigations, and, in 2012, near disaster,” said Jacqueline Saviot, Ocean’s vice president for the United States. “While we are disappointed by the inclusion of the Arctic in the five-year program, we applaud the president’s action to protect Hanna Shoal and coastal areas along the Chukchi Sea and in the Beaufort Sea.”

“Now is not the time to prospect for new reserves in the Arctic Ocean,” said Erik Grafe, staff attorney for Earthjustice. “President Obama rightly precluded leasing in some important areas in the Arctic Ocean. But, to protect those areas, the region, and the planet, the president must keep any new Arctic Ocean leasing out of the five-year plan.”

In its next step toward issuing a final five-year outer continental shelf lease sale plan the Department of the Interior will develop a draft environmental impact statement, or EIS, for the plan. There will be 60-day public comment period following the publication of the draft plan and a notice of intent for the EIS in the Federal Register.

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opportunities associated with future development of the potential resources in the coastal plain.”

Environmentalists support

By contrast, environmental organizations have expressed their widespread support of a potential wilderness designation for ANWR.

“We applaud and thank President Obama for adopting a conservation plan that for the first time proposes to designate a large portion of the pristine Arctic National Wildlife Refuge as wilderness to protect it from exploitation and development. We call on Congress to follow the president’s lead,” said Trip Van Noppen, president of Earthjustice.

“Known as ‘The Sacred Place Where Life Begins’ to Alaska Native communities and teeming with rare wildlife, this is a place of incalculable beauty and value, to be protected like Yellowstone and Yosemite, not turned into another polluted oil patch.”

For its part, the Fish and Wildlife Service said in the ANWR EIS that its decision was based on a thorough analysis of the environmental, social and economic considerations presented in its revised ANWR plan and in the EIS. The agency said that the EIS did not address oil and gas development or seismic surveying because ANILCA prohibits oil and gas operations in ANWR without approval by Congress.

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SLOWING PACE

over the GMT1 area and progress engineering.

The company said in April 2013 that it would begin the regulatory and permitting phase of the project and conduct engineering leading to project approval. It submitted permit applications in July 2013.

The Bureau of Land Management issued a final supplemental environmental impact statement for GMT1 in October, and while BLM’s preferred alternative includes a road, the road and pad are not ConocoPhillips’ preferred alternative. BLM has yet to issue a record of decision.

The U.S. Army Corps of Engineers, however, issued its record of decision and wetlands permits in January, and chose the ConocoPhillips’ alternative as its environmentally preferred alternative and the least environmentally damaging practicable alternative. ConocoPhillips said when the Corps’ decision was issued that BLM’s mitigation measures “must be acceptable in order for the project to move forward for consideration by our senior management.”

BLM has yet to issue its record of decision. Johansen said ConocoPhillips supports the Corps’ decision.

“The alternative they have selected has the least environmental footprint and requires the least amount of gravel,” he said, adding that the Corps’ decision has the support of the Kuskokvik village corporation, Arctic Slope Regional Corp., the city of Nuiqsut, the North Slope Borough, Alaska’s congressional delegation and Alaska’s governor.