**Exploration & Production**

**North Slope development drilling down sharply in first quarter of 2017**

By ERIC LUDJI

North Slope development drilling dropped sharply in the first quarter from a year earlier, driven largely by the steep reduction in activities at the Prudhoe Bay unit as well as the continued suspension of development activities at the Oooguruk and Nikaitchuq units.

BP, ConocoPhillips and Hilcorp, the three most active of the seven producer-operators on the North Slope, drilled 28 development wells in the first three months of the year. Those figures represent the lowest first quarter development drilling totals for the North Slope in at least five years — down from 47 in 2016, 46 in 2015, 36 in 2014 and 32 in 2013.

The figures only include wells labeled “development” in weekly well reports published by the Alaska Oil and Gas Conservation Commission. Some exploration wells are later converted to development wells. Some development wells are reported at a delay after completion. As a result, revised totals could be higher but are unlikely to be lower.

**Prudhoe Bay**

BP Exploration Alaska Inc. drilled just three development wells at Prudhoe Bay in the first quarter, the lowest first quarter activity in at least a decade and probably longer.

By comparison, BP drilled 18 development wells in the first quarter of 2017.

**A major challenge**

State processing massive amounts of seismic data under exploration tax credits

By ALAN BAILEY

A deluge of seismic data has been hitting the office of Alaska’s Division of Oil and Gas as a consequence of exploration tax credits enacted in 2003 by the Alaska Legislature. The legislation, designed both to encourage new oil and gas exploration and to make seismic data available to companies interested in exploring in the state, has motivated exploration efforts. But, as the number of surveys conducted under the terms of the credits has peaked, and as the volume of data obtained from each survey has escalated, division staff have had to deal with the challenge of keeping ahead of the resulting unanticipated data flood.

“This is a challenge on many different levels,” Mark Wiggin, deputy commissioner of the Alaska Department of Natural Resources, told Petroleum News. “It’s literally a wave front of … ever increasing datasets coming in the door.”

**Nikaitchuq North plan**

Eni proposes two extended reach wells from Spy Island starting next winter

By ALAN BAILEY

Eni US Operating Co. has filed a plan of operations amendment with Alaska’s Division of Oil and Gas proposing the drilling of two extended reach exploration wells from Spy Island into the Nikaitchuq North prospect, in the federal outer continental shelf of the Beaufort Sea. The prospect lies immediately north of the operating Nikaitchuq field, which is in state waters of the Beaufort. The drilling would take place from an existing Nikaitchuq field pad on Spy Island, a man-made gravel island about three miles off Oliktok Point.

The surface locations of the two wells, the NN01 and NN02 wells, would be adjacent to the existing row of production wells on the Spy Island drill site. Eni’s plan amendment says. Two strings of conductor pipe, well houses and new well containment structures will be needed for the wells, with the wells being drilled along S-shaped trajectories into the target rocks. Eni plans to drill the wells to vertical depths of 8,000 feet in federal blocks OCS-Y-1757 block 6423 and OCS-Y-1754 block 6374. The extreme extended reach of the...
Repsol adds more interest at Pikka
Acquires 25-49 percent interest in 122 Armstrong leases; Alliance adds acreage at Hemi Springs; Anadarko drops Foothills leases

By ERIC LIDJI
For Petroleum News

Armstrong Energy LLC has transferred sizable working and royalty interests in a large package of North Slope leases to its longtime exploration partner Repsol E&P USA Inc.

In a series of decisions dated April 5, the state Division of Oil and Gas approved the assignment of working and royalty interest for approximately 122 leases in the North Slope and Beaufort Sea regions. Among the acreage under consideration were 22 leases at the Pikka unit, where the two companies have made big discoveries in recent years.

Through the series of transactions, Armstrong transferred 25 percent working interest and either 20.8333 or 21.875 percent royalty interest in 79 leases, and also transferred 49 percent working interest and either 40.8333 or 42.875 percent royalty interest in 43 leases to Repsol. The assignments were approved retroactive to the start of the year.

The assignments appear to cover leases where Armstrong held 100 percent working interest, which means that the company will retain a majority stake in those leases.

Not included in the package of leases were ADL 392048 or ADL 392049, where Armstrong drilled the Horseshoe No. 1 well and No. 1A sidetrack earlier this year.

Under the original terms of their partnership, Armstrong held a 45 percent interest in exploration acreage and a 30 percent interest in the development acreage. Following a restructuring in late 2015, Armstrong assumed a 75 percent interest and operatorship in the exploration acreage and a 45 percent interest in the development acreage with an option to acquire another 6 percent and operatorship — an option the company took.

Hemi Springs

Also in April, the state approved a series of deals between Daniel K. Donkel, Samuel H. Cade and Alliance Exploration LLC involving a package of North Slope leases.

Through the deals, Donkel transferred 100 percent working interest and 81.8333 percent royalty interest in 12 leases to Alliance Exploration. Those leases are ADL 391544, ADL 391545, ADL 392104 and ADL 392109. Cade transferred the remaining 25 percent working interest and 61.375 percent royalty interest in those same four leases to Alliance Exploration. In turn, Alliance Exploration transferred 0.375 percent royalty interest in the leases back to Donkel and 1.125 percent royalty interest in the leases back to Cade.

The leases are part of the Hemi Springs prospect, immediately south of the Prudhoe Bay Unit. Pioneer Natural Resources drilled the Hailstorm No. 1 well on ADL 391757. Alliance already holds at least five leases adjacent to the newly acquired block.

Alliance Exploration LLC was officially formed in November 2016, according to Alaska corporations’

see REPSOL INTEREST page 4
Hilcorp committed to Alaska investments

By ALAN BAILEY
Petroleum News

In a talk to the Resource Development Council on May 4 David Wilkins, Hilcorp Alaska senior vice president, emphasized the significance of Hilcorp’s Alaska investments to his company.

“Overall, Alaska is important to Hilcorp,” Wilkins said. “We’ve invested quite a bit of money. We believe it’s a good place for Hilcorp to invest money.”

Hilcorp entered the Cook Inlet oil and gas industry in 2011 and embarked on a program of rejuvenating the aging oil and gas fields of the region. In 2014 the company expanded its Alaska operations by purchasing some North Slope oil field assets from BP.

Wilkins said that since coming to the state Hilcorp has paid $1.8 billion for its Alaska assets, has injected $1.3 billion into new projects for drilling up oil and gas production, and spent $1.4 billion on the operation and maintenance of its various facilities.

“This is not a strategy to come and leave. We’re here for decades to come,” Wilkins said.

Asked about the potential impact to Hilcorp’s operations of any changes to Alaska’s oil and gas production tax system, Wilkins said that tax increases could delay future oil and gas production.

“What increased taxes will do to us is we’ll reduce capital projects,” Wilkins said. “We will cut drill wells from the budget.”

However, Wilkins said that he appreciates the difficult situation that the legislators in Juneau find themselves in.

“But, from Hilcorp’s perspective, if we leave the rules the same, I think we go forward. I think we increase production. I think we drill more,” Wilkins said.

Rejuvenating old fields

Wilkins recounted that prior to Hilcorp’s arrival in Alaska, there had been looming natural gas shortages in Southcentral Alaska, with the Cook Inlet producers preparing to leave the region.

“We came up with a business model that said let’s come to Alaska and invest in an old, tired, basin and rejuvenate it,” Wilkins said.

In the years since then there have been no gas supply interruptions in Southcentral; gas supply agreements with utilities have been moving from very short-term contracts to agreements covering timeframes well into the next decade; and long-term planning between Hilcorp and utilities has become possible, Wilkins said.

This success has resulted from Hilcorp’s investments in Alaska, he said.

“A few years ago we were on 100 wells, and we’re not stopping,” he said. “I’m proud to tell you that we currently have four drilling rigs running in Alaska and we are the most active driller in Alaska at this time.”

Given that the company had drilled sufficient wells in the Cook Inlet basin to support the current gas market in the region, Hilcorp slowed its rate of drilling during the last couple of years. However, this year the company has increased its Alaska spend, increasing its drilling rate on the North Slope and offshore in the Cook Inlet.

“We plan on drilling 40 wells this year,” Wilkins said.

In addition to drilling wells, Hilcorp has increased its investment in upgrading the old infrastructure that it owns, to ensure that the company’s pipelines, platforms and wells can continue to perform effectively for a long time into the future, he said.

North Slope projects

On the North Slope Hilcorp has started construction on the Moose Pad, on the western side of the Milne Point unit. Drilling should start next year. With, eventually, 70 production and injection wells drilled into the Schrader Bluff and Kuparuk formations, ultimate recovery from the project will be 30 million to 50 million barrels of oil, with first production by the fourth quarter of 2018 and peak production rates of 12,000 to 18,000 barrels of oil per day, Wilkins said.

This year’s construction season at Moose Pad has been successfully completed and pre-ordering is underway for next winter’s season. Construction during the coming season will involve the completion of the access road, work on the pad and the start of facility construction.

For the drilling, Hilcorp will bring in a brand new drilling rig, which is already located on the North Slope, Wilkins said.

Hilcorp is also planning to develop the Liberty oil field, offshore under the Beaufort Sea, and sees the field coming on line in five years or so, with peak production of some 70,000 barrels per day and a 20- to 30-year field life. The total development cost would be more than $1 billion.

“We’re full go in our mind,” Wilkins said.

Hilcorp expects to move forward with Liberty after the completion of the project’s environmental impact statement, which should be issued in mid-summer.

Pipeline leak

Reflecting on recent news about Hilcorp’s gas pipeline leak in the Cook Inlet and questions over the condition of the company’s Cook Inlet infrastructure, Wilkins said that his company is passionate about the integrity of its systems and about its management philosophy.

“We have a very robust integrity and management program on all our facilities and all our lines,” Wilkins said.

see HILCORP INVESTMENTS page 4
HILCORP INVESTMENTS

said, “We go above and beyond what is required from the regulators.”

He said that, although a full investigation is underway, looking into the cause of the gas leak, it appears that the leak resulted from the gas line rubbing against a rock on the seafloor, with the rock wearing a hole in line.

Wilkins said that Hilcorp is looking to the use of new technologies for its facility inspection programs. The company is planning to use drones, starting next year, for annual inspections of its offshore platforms for mechanical and structural integrity. The drones will enable the gathering of data more quickly and safely, without the need to have people descending using ropes, as is present, to inspect the platform interiors.

Hilcorp is already using inertial mapping, a technology that uses a precise gyroscope navigation system, to detect small pipeline movements, to rapidly obtain pipeline data. The company also uses inline inspection tools, known as smart pigs, to monitor the condition of pipelines — these devices are often custom made. The company plans to expand its use of multi-beam sonar, a technology that enables the external inspection of pipelines in the murky waters of the Cook Inlet, where divers experience difficulties in conducting visual inspections.

Hilcorp also uses a risk-based safety program in its operations, applying money, time and effort to safety issues that need to be addressed, Wilkins said.

For example, in the Cook Inlet region the company is upgrading the fire and gas systems on its aging infrastructure, he said.

Cook Inlet oil transportation

As reported in the May 14 issue of Petroleum News, Wilkins also announced a plan to transport crude oil direct to the Tesoro oil refinery by pipeline from oil fields on the west side of the inlet. The idea is to eliminate the use of the Drift River terminal to the west side of the inlet, the oil terminal that is used to load tankers for the shipment of oil to the Tesoro refinery.

The $75 million project would involve converting one of the twin pipelines of the existing Cook Inlet Gas Gathering System for the carriage of oil and building a new subsea gas pipeline across the northern part of the inlet from the Tyonek platform to Ladd Landing, north of Tyonek.

For a number of years the Drift River terminal has been a cause of concern because of its proximity to the Redoubt volcano. In 2009 an eruption of the volcano forced an evacuation of the terminal and an emergency drawdown of oil stored at the terminal site.

Long-term commitment

Wilkins commented that Hilcorp’s new pipeline proposal demonstrates his company’s long-term commitment to Cook Inlet.

“We see much more development in the Cook Inlet. Many more drill wells. And we see decades worth of production in the Cook Inlet and we’re going to re-invest in the Cook Inlet,” Wilkins said.

Citing the Swanson River oil field on the Kenai Peninsula as an illustration of how the life of an aging field can be prolonged, Wilkins commented that after 60 years in operation this field is still delivering more than 2,000 barrels per day of oil.

Hilcorp is still drilling in the field and the company estimates there are more than 7 million barrels of recoverable oil remaining to be produced. With the use of new technology, the field could continue operating into the next century, Wilkins said.

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records. The company is a wholly owned subsidiary of the Liner Trust.

Anadarko

Anadarko Petroleum Corp. surrendered eight leases in the foothills of the Brooks Range Mountains. The leases — ADL 392375, ADL 392376, ADL 392377, ADL 392378, ADL 392379, ADL 392380, ADL 392381 and ADL 392382 — were located in a bundle along the Kuparuk River unit, near the E. Kuparuk Unit No. 1 and Kuparuk Unit No. 1 wells.

For a time starting in 1998, Anadarko was the largest leaseholder in Alaska, with some 3.3 million acres in its portfolio. But the company has been relinquishing leases throughout the region for several years, following a pioneering gas exploration program.

Other news

The state is currently considering 15 separate transactions involving four working interest owners in five leases at the offshore Kitchen Lights unit. Lee Higgins & Terrie L. Stull-Higgins and Paul W. & Lori A. Lokke have asked to transfer a 0.25 percent royalty interest in five leases to Proak LLC, and Proak Royalties L. has asked to transfer a 2.656248 percent royalty interest in the leases to Northern Lights Royalties LP. The leases are ADL 389927, ADL 389928, ADL 389929, ADL 390374 and ADL 390381.

A lease in the Foothills region held by Dan Donkel — ADL 391035 — expired.

Hilcorp Alaska LLC surrendered lease ADL 392240. The offshore Cook Inlet lease was adjacent to the North Trading Bay unit and was set to expire at the end of May 2023.

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By KRISTEN NELSON  
Petroleum News

The average for North Sea Brent crude oil spot prices was $52 per barrel in April, up $1 per barrel from March, the U.S. Energy Information Administration said May 9 in its monthly Short-Term Energy Outlook. EIA said April was the fifth consecutive month that Brent averaged between $50 and $55 per barrel. The agency forecasts Brent to average $53 per barrel this year and $57 in 2018, with West Texas Intermediate crude forecast to average $2 per barrel less than Brent in both years.

Crude oil prices rose in the first half of April, but fell during the second half and on May 4 reached the lowest point since the end of November, EIA said. The April 3 to May 4 decline for Brent front-month futures was $4.74 per barrel, to $48.38, while WTI was down $4.72 per barrel to $54.52. The April spot price average was still 72 cents above March for Brent and $1.73 per barrel above March for WTI.

“Upside support for crude oil prices resulting from voluntary production cuts or unplanned outages over the past months has been countered by rising crude oil production in Libya and in the United States,” EIA said. At the beginning of May, Libya said its crude oil production had increased to the highest level since late 2014, and U.S. crude oil production was estimated to have reached 9.1 million barrels per day in April, “the highest level since March 2016,” EIA said.

Lower price forecast

The agency said it is projecting more supply growth in the global crude oil market this year and next, “resulting in a lower forecast of crude oil prices in the coming months.”

The agency’s current 2017 forecast for Brent of $53 per barrel is down $1 per barrel from its April forecast; the 2018 forecast remains the same at $57 per barrel.

“Higher oil production from the United States, along with rising oil output from Canada and Brazil, is expected to curb upward pressure on global oil prices through the end of 2018,” Acting EIA Administrator Howard Gruenspecht said in a statement. In the U.S. the number of drilling rigs targeting oil reached a two-year high at the beginning of May.

“Increased drilling rig activity is expected to boost U.S. crude oil production this year and next, with forecast production in 2018 averaging 10 million barrels per day,” Gruenspecht said.

There is a lag between deployment of drilling rig and oil production. EIA said, with recent rig increases indicating that U.S. production “will likely rise further in the coming months.”

Extension possible

EIA said that reports from the Joint Organization of the Petroleum Exporting Countries and the non-OPEC Ministerial Monitoring Committee suggested compliance with production cuts remained high in March and said because global oil inventories remain high, “oil ministers of several OPEC countries, including those of Saudi Arabia, Kuwait, and Iraq, have suggested their respective countries would support an extension of the crude oil production cut agreement for six months beyond the current end date in June.”

The agency said the combination of expectations of supply growth this year, plus concerns that a proposed extension of the production cut agreement will not reduce inventories as quickly as expected both contributed to the sharp drop in crude oil prices in the first week of May.

More global oil supply growth is expected compared to April, EIA said, and this results in a lower forecast of oil prices for the coming months. Current growth projections are higher by some 200,000 bpd this year and by 100,000 bpd in 2018, with expected liquid fuels consumption growth largely unchanged. EIA is projecting liquids fuel supplies to grow by an estimated 1.4 million bpd this year and 1.9 million bpd in 2018, compared to growth in consumption of 1.6 million bpd this year and next.

Natural gas

The Henry Hub price for natural gas averaged $3.17 per million Btu this year, up 22 cents from March, EIA said, with U.S. dry natural gas production forecast to average 74.1 billion cubic feet per day this year, up 1.8 bcf per day from 2016.

“This increase reverses a 2016 production decline, which was the first annual decline since 2015,” the agency said.

U.S. natural gas production is forecast to be 3.2 bcf per day more in 2018 than this year.

EIA said Henry Hub is expected to average $3.43 per million Btu next year, up from an expected $3.17 this year, with the increase due to new natural gas export capabilities and growing domestic consumption.

Natural gas storage injections averaged 51 bcf per week in the four weeks ending April 28, almost 10 bcf per week more than the five-year average for those weeks.

With natural gas production returning to growth in recent months after declining in 2016, higher natural gas exports have helped moderate inventory builds this year,” EIA said.

Contact Kristen Nelson
at knelson@petroleumnews.com

EIA: US ’18 production at 10 million bpd

Overall higher production expected to curb oil prices this year, next; North Sea Brent spot averaged $52 in April, up $1 from March

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Kenai Loop compression pushed to 2018

By ERIC LIDJI
For Petroleum News

AIX Energy Inc. is considering a range of facility upgrades at the Kenai Loop field.

The Texas-based independent is not planning to drill any new wells at the onshore Cook Inlet natural gas field over the coming year. But the company is continuing to evaluate several facility projects, including an upgrade to compression systems, a plan to revive a currently dormant production well and a plan to decommission an existing pad.

Average daily gas production at Kenai Loop appears to have peaked at approximately 11.5 million cubic feet per day in the first quarter of 2016, a little more than four years after startup. The field produced 3.159 billion cubic feet in the year ending March 31, down from 3.657 billion cubic feet during the previous year.

A drop in daily production earlier this year appears to be related to the unpredictability of two non-firm contracts—one with Tesoro and the other with an un-named customer.

A firm contract with Tesoro and a larger firm contract with Enstar Natural Gas Co. will both expire later this year. “AIX has multiple contracts which are likely to lead to additional non-firm sales in 2017. AIX is also pursuing additional firm commitments beyond the termination of the Tesoro and Enstar contracts in 2018,” according to AIX.

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The company described its current strategy as an attempt to "to maximize field recovery and net present value by aligning production capacity with commercial opportunities."

Future drilling plans unclear

Whether that strategy will call for drilling in 2018 or beyond is unclear.

In its nearly five years as the operator of Kenai Loop, predecessor Buccaneer Energy Ltd. drilled four wells. The KL 1-1 and KL 1-3 wells are currently in production. AIX is considering plans to convert the temporarily suspended KL 1-2 production well into a disposal well. The shut-in KL 1-4 production well is not currently tied into the system.

Earlier this year, AIX hired a geophysical team to “evaluate additional rate enhancing opportunities” at the four Kenai Loop wells but is still reviewing the results.

In its 2016 plan of development for Kenai Loop, for the year ending March 31, AIX proposed a range of facilities projects to improve production and operations at the field.

Among those was an attempt to address water-handling costs, which represent the second-highest lease operating expense at the field after personnel, according to the company. Last year, AIX negotiated a 29 percent decline in water-handling fees.

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AOGCC lists topics for idle wells workshop

The Alaska Oil and Gas Conservation Commission has a workshop scheduled for 10 a.m. June 17 at its Anchorage office to discuss possible changes in regulation of idle wells.

On May 17 the commission released discussion topics for the workshop, including:

• Should idle wells be treated more like suspended wells with an application for the well to remain shut-in and periodic reports? If so, what should the time parameters and frequency of the reports be?
• Since there is a significant abandonment liability for idle and suspended wells, should the commission adopt regulations in this area to better protect the state and future operators?
• Should the safety and environmental risks of idle and suspended wells, should the commission adopt regulations for better protection?
• How long should the commission allow a well to be idle before suspension or plugging is required?
Pebble door opens

EPA agrees to lift pre-emptive restrictions, allowing normal permitting

By SHANE LASLEY
Mining News

A fter five long years of battling inside and outside of the courtroom, Pebble Limited Partnership and the U.S. Environmental Protection Agency have negotiated an agreement that opens the door for the enormous Pebble copper-gold-molybdenum project in Southwest Alaska to enter the permitting process unencumbered by predetermined restrictions.

“This settlement represents a major step forward for the Pebble project,” said Pebble Partnership CEO Tom Collier. “It allows us to start advancing Pebble to the next phase of development and provides us with the opportunity to initiate the normal permitting process for this project.”

A sentiment reflected by EPA Administrator Scott Pruitt.

“We are committed to due process and the rule of law, and regulations that are ‘regular’,” said the former Oklahoma attorney general. “The agreement will not guarantee or prejudice a particular outcome, but will provide Pebble a fair process for their permit application and help steer EPA away from costly and time-consuming litigation. We are committed to listening to all voices as this process unfolds.”

While this is an important milestone for Northern Dynasty Ltd., currently the sole owner of Pebble, the outcome has implications well beyond one copper project in Alaska, or even the U.S. mining sector at large. Stopping EPA from using CWA 404 (c) action against Pebble. If either deadline is missed, however, the regulator has the option to dust off and activate its previous decision.

Pebble has also agreed to withdraw its legal l...
Goldstrike, Newmont move toward Plateau

Goldstrike Resources Ltd. May 15 announced that crews and equipment are being mobilized to the Plateau gold property in central Yukon for the maiden exploration campaign under partnership with Newmont Mining Corp. This program will start off by outlining the full extent of numerous high-grade gold showings at Plateau in preparation for drilling later in the year. “This will prove to be a defining season for the Plateau property,” said Goldstrike Chief Geologist James Moors. “Our recent partnership with Newmont allows us to advance to the next stage of development by committing the resources and technical expertise necessary to further focus our efforts and understand the nature of the extensive new gold system.” This effort will begin with an intensive geological mapping and sampling to increase the resolution of information over a 60-square-kilometer (23 square miles) area and allow crews to vector into key areas with the strongest potential for additional discoveries. The program will also involve the use of Newmont proprietary geochemistry surveys, ground geophysics, and detailed geological mapping along the interpreted trend of showings will help define the extent of mineralization both on surface and at depth. Property scale geophysics and detailed surface modelling will refine understanding of the geology and structural framework that control the high-grade gold mineralized zones across the district and identify key areas having strong potential to host additional gold mineralization. In the final preparation for the most extensive drill program ever carried out at Plateau, the partners will trench and sample the most promising of the gold discoveries. Separately, Goldstrike is preparing for the largest exploration program ever completed at its Lucky Strike property in Yukon’s White Gold District.

Colorado budgets C$4M to expand stake in KSP

Colorado Resources Ltd. May 11 said it has made a final cash payment of C$150,000 and completed C$6 million of work at KSP, satisfying an agreement of the weekly newspaper, Petroleum News. North of 60 Mining News is a weekly supplement of Petroleum News. This good news, besides the obvious positive possibility of a major mine going forward in Southwest Alaska, is that it lets us dream of a turnaround in the attitude of the federal government with regard to the development of domestic resource projects, especially in Alaska. It is fair to say that for too long the regulatory agencies have forgotten how to get to “yes” when it comes to dealing with permit applications. There can be no doubt that the EPA led the way in halting its statutory authority to envelope every effort on the part of the private sector to do virtually anything. The appointment of a new Administrator may put the brakes on some extent; however, how long that will last and what good it will do is still an open question.

I am not at all sure that the EPA in particular or the regulatory agencies in general actually define their respective mandates as an obligation to bring domestic industry to its knees. On the other hand, that is the track record. Generally, it is called the Law of Unintended Consequences. Under that law “any action will have at least one consequence not intended by its author.” In science, it is the Chaos theory. Under the Chaos theory, every time a butterfly flaps its wings, the entire world is changed ever so slightly. So too, in our society, every time a bureaucrat taps a key to implement some bright idea, the unintended and chaotic consequences often change our lives randomly and imperceptibly forever.

It is indisputable that Congress and the administrative proceedings of the past several decades have given the federal ample fodder to flail its wings. The impact on Alaska has been palpable, but no more so than in the case of the Pebble Project.

With Pebble, there is a known deposit of significant size containing copper and gold, as well as other commodities, that are needed and in demand. The deposit is located in a remote region where unemployment is high, social services are marginal and infrastructure is non-existent. The impact of the environment on a mine will not only be minimal, due to Dracoonian oversight, but temporary, because even the largest mines will be exhausted over time.

The competing considerations include a huge Seattle-based fishery and a local culture maintained around a subsistence lifestyle. These critics feel an undifferentiated threat from Pebble; but, the region is already calamity prone – witness the local earthquakes, volcanoes and extreme weather conditions. Any theoretical threat that might befall the mine would not pose an extraordinary jeopardy.

Despite how we arrived at the point where the Pebble Project and the EPA have come to an understanding as to how to proceed, at least through the permit application process, the very fact of that settlement should give us all comfort.

Alaska hosts tremendous reserves of natural resources, many of which are ripe for harvest. It is not uncommon for them to die on the vine. From the molybdenum deposit at Quartz Hill to the Chuina Coal project on the west side of the Colville, many mining opportunities have been defined and left for others to develop.

In the short run, the flap of a butterfly’s wing in the District of Columbia can affect all Alaskans adversely. In the long run, it will not change either the demand for our commodities or our technical ability to recover them.

It is heartening that the new Administration has afforded the Pebble Project the opportunity to proceed with applying for permits for the project. We cannot forget, however, that it took developers of the Kensington Mine two decades and a trip to the U. S. Supreme Court to get that mine permitted. Pebble is just being allowed to take an early step down a very long road.

All that we can do now is extend our congratulations, cross our fingers and wish Pebble Godspeed.
action being against EPA. Able to be taking Pebble into permitting without limitations, however, was the primary root for the legal suit.

"From the outset of this unfortunate saga, we've asked for nothing more than fairness and due process under the law—thus the.required permitting plan for Pebble and have it assessed against the robust environmental regulations and rigorous permitting requirements enforced in Alaska and the United States," Thiessen said. "Today’s settlement gives us precisely that, the same treatment every developer and investor in a stable, first-world country should expect.

Precedent avverted

While of vital importance to the Pebble Partnership, the litigation of EPA’s CWA 404 (c) restrictions on permits to develop Pebble averted a precedent that had the potential to change the way EPA assessed project development in the United States. In 2015, Collier informed the U.S. House Science Committee that the Pebble Partnership has uncovered documents revealing that at least part of EPA’s overarching intent in pre-emptively stopping the Pebble Mine is to set a precedent that would allow the agency to deny where industrial development could and could not take place in the U.S.

"They want to be able to zone the watersheds of America," Collier summarized. EPA’s internal discussions seem to confirm this as well.

In 2010, while tossing around the idea of taking pre-emptive 404 (c) action against Pebble, upper level EPA management said that a successful pre-emptive veto of the Pebble permits would “serve as a model of proactive watershed planning” in the United States and listed this assertion in the pro columns of a matrix evaluating the potential of taking a pro-active stance at Pebble. This agreement between the Pebble Partnership and the EPA does not preclude a future environmental agency from attempting to extend its authority to pre-permit mining projects. However, in our case we were able to do so at Pebble was stopped short, however, prevents the precedent from being set and lessens the odds of the agency pre-empting the permitting process to prevent a permit prior to permitting in the future.

Collier, a 40-year Washington D.C. insider who has worked alongside some of the juggernauts of the modern environmental movement, told Mining News that he believes the level of backlash EPA has received from lawmakers and others “will discourage any administration from taking this direction, forever.”

Major milestones ahead

With the settlement reached, precedent avverted and clock set, the Pebble Partnership is wanting no time in achieving the next major milestones: bringing a major mining company on board and submitting a mine plan for permitting.

Since any global mining company that eventually steps forward as a Pebble partner must want to be involved in the mine design, bringing such a partner onboard tops this list of priorities.

The Pebble Partnership and Northern Dynasty CEOs see no lack of potential suitors.

“A world-class mineral deposit, there remains significant interest in Pebble among major mining companies. This settlement removes a major stumbling block to attracting new investment in the Pebble project and in Alaska,” said Collier.

This world-class deposit hosts roughly 56.8 billion pounds copper, 70.4 million ounces gold, 3.4 billion lb molybdenum and 343.6 million oz silver in measured and indicated resource, an attractive asset in a world where the copper and gold are getting harder to find.

“When it comes to undeveloped assets, Pebble is both the largest copper and largest gold resource in the world,” Thiessen explained.

“This is the kind of life asset that makes a major mining companies covet,” he added.

Thiessen said Northern Dynasty is currently in advanced talks with a number of mining companies and the new Pebble partner may be a consortium of three or four of them.

When asked if he anticipates that a new Pebble partner might be in place within the next six months, Thiessen explained. "The issue for us is, among all of these options, which ones are we going to choose."

He told Mining News that the Pebble Partnership has already substantially narrowed down these options “and made some decisions that are going to surprise people because it is going to be so dramatically different what people have been expecting Pebble to look like when it finally puts its plan on the table."

Repositioning Pebble

A newly formed advisory committee will likely be the first at the table when the mine plan is presented.

Consisting of strong personalities with high integrity, many of which are skeptical of any plans to develop a mine at Pebble, this panel is going to be a tough audience.

Willie Hensley, a respected Alaska Native leader; Kim Williams, former executive director, NunaDitaakok, Jim Maddy, former president, League of Conservation Voters; General Joseph Ralston, former vice chairman, Joint Chiefs of Staff; and Terrence “Rock” Salt, former deputy assistant secretary, Army Corps of Engineers are the founding members.

The Pebble Partnership welcomes the critiques it anticipates from this panel.

The formation an advisory group is one of the facets of a larger strategy to make people living and working in the region more comfortable with having a world-class mine as a neighbor.

Providing tangible economic benefits across the Bristol Bay region is another.

One such way to ensure the people across this vast section of Southwest Alaska benefit from development of a mine is to set up some type of revenue sharing for residents and Native village corporations.

World-class deposits in Alaska, such as the Red Dog zinc mine and Donlin Gold mine project, are located on Native owned lands. This is an advantage to the operations, we can tangible benefits from the operation.

While Pebble, located on state lands, would help to send badly needed money to Alaska coffers and would be an extremely significant economic contributor to the Lake and Peninsula Borough, which covers the area where Pebble is located, the larger Bristol Bay region does not currently have a way to directly draw economic benefit from the copper-gold-molybdenum-silver deposit.

Collier said the Pebble Partnership is currently considering a program that may lead to some degree of sharing the larger Bristol Bay region.

Providing contracting opportunities to Native village and regional corporations in the region and across Alaska is another advantage a Pebble Mine could offer.

A key aspect to this is the Pebble Partnership to let those Alaska Native corporations know what type of contracting needs the mine will have and help ensure that they are prepared to fill as many of those needs as possible.

Collier said Pebble is planning to bring in a mentor who can match Native corporations with specific contracting opportunities at Pebble. This would be followed up with training to ensure the groups have the knowledge to both fill the roles when the time comes.

Another major economic benefit the mine could provide to Bristol Bay residents is the lower cost power.

Thiessen believes the power brought into the region for a mine a Pebble could cut the cost of power across the region by as much as 80 percent, a substantial savings for Bristol Bay residents and fish processors.

"I think there are going to be whole series of things that we are going to be talking about, now that we don’t have to talk about EPA killing our project," Collier said. "And I think it is going to be a much better business of talking about interesting discussions for us, the people of the region and the people of Alaska."

Boots on the ground

With the permitting door now open and plans to enter that door by the end of the year, the Pebble Partnership is gearing up for a field program at the project.

"We’re very pleased the project is taking forward, and that we’re in position to begin to re-hire local residents and Alaska firms that have contributed so much to Pebble’s advancements in years past," Collier said.

"This settlement removes a major stumbling block to attracting new outside investment in the Pebble project and in Alaska," said Collier.

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Petroleum News 5800 "Week of May 21, 2017

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ENVIRONMENT & SAFETY

DEC acts on Fairbanks air quality

Following a new ruling by the Environmental Protection Agency, changing the status of Fairbanks’ inability to fix its air quality problems from moderate to serious, the Alaska Department of Environmental Conservation has mandated measures to address air quality in the city.

The problem arises from the widespread usage of wood burning stoves for the heating of homes in the Interior city, given the high cost of alternative methods of heating. Thermal inversions during cold winter weather cause smoke from the stoves to accumulate close to ground level, raising the concentration of smoke-related particles in the air well above the levels at which health issues arise.

DEC is introducing two measures in response to the EPA ruling.

The first measure requires building owners selling, leasing or conveyancing their properties within the area impacted by air quality problems to replace inefficient wood-fired heating equipment with EPA-certified wood or pellet stoves. The stove certification must meet current emission standards.

Secondly, DEC requires wood sellers in Fairbanks to register with the agency and document the moisture content of the wood that they sell. The wood sellers must provide information about the wood’s moisture content to their customers. The burning of wet wood exacerbates the emission of smoke from wood stoves. ADEC says that a water content in excess of 20 percent causes increased emissions.

“These measures are designed to improve air quality and help bring the area closer to compliance with current standards,” said Denise Koch, DEC director of air quality. “Controlling particulate matter will benefit public health throughout the Fairbanks North Star Borough community.”

—ALAN BAILEY

LAND & LEASING

State OKs changes to Alpine PA

The state has approved a change to the boundaries of the Alpine participating area at the Colville River unit to accommodate drilling activities at the new CD-5 pad.

In a decision dated May 9, Division of Oil and Gas Director Chantal Walsh allowed operator ConocoPhillips Alaska Inc. to contract a portion at the northeast corner of the Alpine participating area and expand the participating area along its western border.

The change essentially brings recent CD-5 drilling into the participating area boundaries.

The Alpine participating area is the largest producing segment of the Colville River unit and often referred to as the “main Alpine field,” as opposed to the Alpine satellites.

—ERIC LIDR

E&P

Alpine annual turnaround set for mid-June

Alyeska Pipeline Service Co. performed an 18-hour major maintenance shutdown of the trans-Alaska oil pipeline beginning 6 a.m. May 6, the first shutdown of the year.

Various projects were scheduled, including isolation of below-ground piping at the Valdez Marine Terminal, functionality confirmation for newly installed control systems and routine maintenance.

Producers frequently take advantage of the shutdowns for their own maintenance projects.

ConocoPhillips Alaska spokes-woman Natalie Lowman said neither Alpine nor Kuparuk, both operated by ConocoPhillips, had scheduled maintenance during the May trans-Alaska oil pipeline shutdown. She

continued from page 6

KENAI LOOP

A plan to install a gas compression system at the field remains unresolved. In its May 2016 plan of development, AIX said it expected to install such a system within 12 to 18 months. But after updating internal models based on “flowing and shut-in data,” the company is now forecasting that the compression system can wait until mid-2018.

The questions to be resolved are the same as last year: whether to purchase a system or to lease it, and whether the system should be gas-fired or electric-fired. The proposal to revive the KL-1-4 well is part of the larger question of planning a compression system.

In its current plan of development, AIX also said it had decided in April 2017 not to renew its land lease for the Kenai Loop Pad No. 2 with the Alaska Mental Health Trust Land Office and was “currently working with TLO to evaluate the way forward.”

The lease expired at the end of 2016, according to the Trust Land Office. As part of those discussions with the Trust Land Office, AIX will be required to decommission the pad.

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Kuparuk and Colville

ConocoPhillips Alaska Inc. also reduced drilling activities at the Kuparuk River unit. But those losses were mostly offset by an increase in drilling work at the Colville River unit.

The company drilled 14 development wells at Kuparuk during the first quarter of this year, down from 20 development wells in both 2016 and 2015 but up from the 10 development wells the company drilled during the first quarters of both 2014 and 2013.

A widespread campaign of multilateral drilling continues to be a major component of the development program at the Kuparuk River unit. In the first quarter, ConocoPhillips drilled a sidetrack and associated lateral at 1H, a dual lateral well at 2T, a trilateral well at 3H and a quad-lateral well at 3M, plus two single wells at 2M and 3M.

Alaska Oil and Gas Conservation Commission, won confirmation for his reappointment without objection.

The case was not the same for his fellow commissioner, Hollis French, whose confirmation faced headwinds. French was nominated for the public seat on the commission, and did win confirmation in a 35 to 24 vote, but only after lengthy discussion following a call on the House (requiring all members to be present) and failure, by a 29 to 30 vote, of a motion to table consideration of his name to the last item of the day.

After that motion, House Majority Leader Chris Tuck, D-Anchorage, questioned whether the move was intended to leave some appointments hanging and said he wanted French’s confirmation taken up immediately. The House voted 17 for and 22 against tabling, with the Republican minority all voting for tabling; in the Senate, where French, a Democrat, formerly served, eight members voted to table the motion opposed, with some Republicans voting with the minority Democrats against tabling.

In debate on French’s confirmation, Sen. Peter Micciche, R-Soldotna, the Senate majority leader, said he had process concerns, saying French had been a great senator, but that he was concerned about French’s ability to work on what Micciche characterized as a consensus board.

Sen. Anna MacKinnon, R-Anchorage, called French a thoughtful man but said constituents had urged her to vote no on his confirmation which spurred some investigation on her part and raised issues, including whether French was advocating for additional jurisdiction for the commission over the loss of fuel in Cook Inlet due to a pipeline leak.

Sen. Tom Begich, D-Anchorage, argued that French would represent the public fairly while Sen. Bill Wielechowski, D-Anchorage, said the other AOGCC commissioners supported French in testimony and he hadn’t heard that support had been withdrawn.

Rep. Geran Tarr, D-Anchorage, said House Resources asked French about the waste issue and said he believed he was acting in his role as a commissioner on a commission charged to prevent resource waste.

continued from page 1

1Q DRILLING

wells in the first quarter of 2016, 18 in the first quarter of 2015, nine in the first quarter of 2014 and 17 in the first quarter of 2013.

The sharp reduction is not a total surprise, given that the company had previously announced plans to significantly reduce drilling at the largest oil field in the state.

Through various efficiencies, BP was able to maintain relatively steady production at Prudhoe Bay in 2016, despite fewer new wells. In a recent plan of development for the Initial participating Areas — the largest producing segment at the unit — the company said it expected to again reducing drilling rates this year without a major hit to production.

continued from page 1

CONFIRMATION

majority Republicans carrying that motion.

The May 16 joint session was, as is the normal practice, by agreement between the House and Senate. Some appointments failed to win approval, but none of those were oil and gas industry related.

All cabinet-level appointments were approved: Department of Natural Resources Commissioner Andy Mack was confirmed along with Attorney General Jahna Lindemuth and Department of Public Safety Commissioner Walt Monegan.

Three seats on the board of the Alaska Gasline Development Corp. were up for approval — Warren Christian of North Pole, Hugh Short of Girdwood and David Wight of Anchorage — and all won approval with a major hit to production.

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continued from page 1
ENVIRONMENT & SAFETY

Senate upholds methane leak regulations

On May 10 the U.S. Senate rejected a resolution that had been passed by the House of Representatives that would have annulled regulations issued by the Obama administration for limiting methane emissions from oil and gas drilling operations. The Department of the Interior published the regulations on Nov. 18, 2016, and on Jan. 30 Rep. Rob Bishop, R-Utah, introduced the resolution to cancel the new rule — Congress can act to cancel a federal rule within 60 days of the rule being implemented.

There have been several resolutions passed by Congress undoing regulations introduced near the end of the Obama administration, but the Senate voted against this latest resolution by a vote of 51-49. All Democrat and independent senators voted against the resolution, as did three Republicans: Lindsay Graham, John McCain and Susan Collins.

The regulations that remain in force apply to federal onshore land administered by the Bureau of Land Management. The regulations include criteria for when flared gas may be considered waste and, thus, be subject to royalty payments, and which uses of gas may make the gas exempt from royalties. The venting of gas is prohibited, except under specific circumstances. Operators must use an instrument-based system for gas leak detection. Old, leaky equipment must be replaced. And there are regulations pertaining to the maintenance of pneumatic pumps, for limiting emissions from gas storage vessels; for minimizing gas losses associated with the handling of liquids; and for the capture of gas during the completion of wells completion and when conducting hydraulic fracturing.

The rule also clarifies the regulations for the setting of royalty rates for BLM oil and gas leases.

—ALAN BAILEY

PIPELINES & DOWNSTREAM

CBP withdraws new Jones Act proposal

U.S. Customs and Border Protection has withdrawn a proposal that would have placed vessels engaged in the repair of offshore oil and gas installations within the constraints of the Jones Act. The Jones Act requires vessels transporting passengers or merchandise between U.S. ports to be manufactured, owned and flagged in the United States.

In a 1976 ruling the Customs Service confirmed a longstanding position that a vessel engaged in the laying of an offshore pipeline is not engaged in coastwise trade and, therefore, be foreign flagged. That ruling included a clarification that a vessel engaged in pipeline repair would also be exempt from the Jones Act, even although the vessel may be transporting material required for the repair work. The agency included within that exemption vessels engaged in connecting pipelines to offshore platforms, and conducting platform repairs, provided that materials not required for that work are not delivered to the platforms.

In January of this year CBP issued a proposed order, confirming that offshore repair work is not coastwise trade but saying that the carriage of materials for the repairs does constitute the transportation of merchandise. Thus, an operator of an offshore repair operation would require a U.S. vessel to carry repair materials to the site of the operation. The agency said that changes in the pertinent laws since 1976 had made the 1976 interpretation of the law invalid.

On the other hand tools used to conduct an offshore repair are viewed to be vessel equipment and, as such, would not trigger Jones Act vessel ownership restrictions, the proposed order said.

On May 10 CBP announced that, after receiving more than 3,000 comments, both supporting and opposing its proposal, it was withdrawing its January notice. The American Petroleum Institute promptly issued a statement welcoming the proposal withdrawal.

“By rescinding the proposal, CBP has decided not to impose potentially serious limitations to the industry’s ability to safely, effectively, and economically operate,” said API Upstream Director Erik Milito. “The responsible development of America’s abundant oil and natural gas resources is a critical part of a forward-looking energy policy that will secure our energy future and help meet our nation’s energy needs.”

—ALAN BAILEY

GOVERNMENT

GAO recommends improved BLM data management

The Government Accountability Office has recommended that the Bureau of Land Management improve its management and tracking of data relating to the environmental impacts of permitted oil and gas operations on federal lands. In a newly published report GAO says that, although BLM has a process for approving exceptions to environmental mitigation measures when issuing permits, procedures for these approvals are inconsistent across the agency’s field offices and the agency has no policy for consistently tracking exception requests. As a consequence, BLM may be unable to provide reasonable assurance that it is meeting its environmental responsibilities, GAO says.

Moreover, whereas BLM requires certain key practices in conjunction with permitted activities, the agency does not consistently document the results of its inspections, conducted to ensure that these practices are carried out. The key practices relate to issues such as standards for road construction, the use of secondary containment for protection against oil spills, and the reclamation of impacted land. In the absence of detailed information about inspection results or the effective use of data from inspections, BLM cannot fully assess the effectiveness of its best management practices policy, GAO says.

GAO has made a series of recommendations for BLM, including the development of bureau-wide written procedures for making exception decisions during permitting; the making of exception decisions public; and the clarification of guidance for documenting the results of environmental inspections. Field offices also need guidance on the collection and use of field inspection data, GAO says.

BLM has in general concurred with the GAO recommendations. However, the agency has expressed concern over the possibility of public involvement in the permit exception decision making process. Exception requests are available to the public but public involvement in the exception process would require a formal rule change, BLM says. The public can currently review and comment on documents relating to exception requests, including land planning and Natural Environmental Policy Act documents, the agency says.

The annual turnaround for Alpine is schedule for mid-June. As reported last week, BP has a scheduled turnaround later this summer, while Hilcorp took advantage of the May shutdown for some planned maintenance.

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ALPINE TURNAROUND

said ConocoPhillips has “no significant turnarounds planned at Kuparuk this season.”

—KRISTEN NELSON
continued from page 1

HB 111

Senate Resources substantially amended the bill, which was further amended in Senate Finance. That bill passed the Senate May 15, and the House, as expected, rejected the Senate version May 16.

On day 121 of the regular session, May 17, the Senate voted against rescinding its amendments to the House bill. Legislation passed last year, HB 247, ended the refundable credit system for Cook Inlet. A goal of all versions of HB 111 has been ending refundable credits on the North Slope.

The Department of Revenue fiscal note for the Senate Finance CS describes the bill as “a comprehensive attempt to reform and reduce the cost of Alaska’s current program of providing direct tax credit rebates and other advantages to oil and gas companies.”

State repurchase of credits began in 2007, with some $8 billion in tax credits received by companies through the end of fiscal year 2016, including credits against tax liability and credits repurchased by the state.

Revenue said the Senate Finance CS would provide additional revenue up to $12.5 million per year, with no new additional revenue expected in FY 2017 due to phased implementation. The department said changes in the bill would require “somewhat substantial reprogramming of the Tax Revenue Management System and Revenue Online tax portal,” at an estimated one-time cost of $1.2 million.

Revenue said the CS repeals certain credits and closes loopholes with the carried forward annual loss credit reduced to 15 percent and sunset in 2018 for Cook Inlet and Middle Earth. Unlike previous versions, the CS does not create a Cook Inlet legislative working group but instead extends the current Cook Inlet tax cap, averaging 17.5 cents on Cook Inlet gas, indefinitely, and establishes a new tax, not to exceed $1 per barrel, for Cook Inlet oil.

The CS keeps the current North Slope $70 million per company cap on annual credit certificate repurchases, but allows only the first $35 million to be repurchased at full face value, with the remainder at 75 percent. A company can also choose to carry the second part forward. Operating losses for larger companies continue to be carried forward against future taxes.

The gross value reduction for new oil only applies for the first seven years of production and is lost on Jan. 1, 2023, for fields receiving it prior to the bill’s effective date. The GVR can be terminated early if the price of oil exceeds $70 for three years of production.

Revenue said the Finance CS also repeals several older and currently unused exploration credit programs and authorizes the department to use credit certificates to offset a company’s other obligations to the state prior to repurchase.

Reactions to Senate version

Alaska Oil and Gas Association President and CEO Kara Mortarty said in a May 15 statement that the Senate CS is “the seventh change to Alaska’s oil tax structure in 12 years. It eliminates cash payments to companies, and adds $1.2 billion to the State of Alaska’s treasury over the next 10 years.”

see HB 111 page 15

continued from page 12

Oooguruk and Nikaitchuq

The first three months of the year saw no new development drilling at either the Oooguruk unit or the Nikaitchuq unit, which have both been suspended for nearly a year.

Eni recently announced plans to resume development activities at the Nikaitchuq unit this year, although the lack of first quarter activities falls short of company timelines.

Cachus has announced no timetable for resuming drilling at Oooguruk.

continued from page 1

1Q DRILLING

none in the first quarter of 2015, shortly after taking over control of the unit. The previous unit operator BP drilled 12 in the first quarter of 2014 as it completed an atypically large development at F pad, and none in the first quarter of 2013.

Hilcorp is in the early stages of developing the Milne Point unit and recently announced a major drilling program for the remainder of this year. The company also plans to begin drilling activities at the Duck Island unit, which has not had any new drilling since 2009.

ICEWINE WELL

ing in late June.

In early June, the company plans to perform “micro stimulations … to calibrate the stress profile in the zone of interest. This data will then be combined with the processed and interpreted log information in order to select the optimal location of perforations for the main stimulation operation,” according to 88 Energy. The company expects to conduct the “main stimulation” in the third week of June, followed by a one-to-two-week cleanup and a production test at a choked back rate to prevent proppant from being displaced.

—ERIC LIDII

Contact Eric Lidii at elidii@nordic-calista.com

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Drilling – Workover – Support – Remote

Caelus has announced no timetable for drilling at Oooguruk.

Contact Eric Lidii at elidii@nordic-calista.com

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Further drilling

Eni told the division that, depending on the initial results of the drilling, the company may take further action, starting with bypass drilling for rock coring. From either well, following an analysis of well logs and core data, the company may later drill a 1,000-foot horizontal sidetrack well for production testing. The production testing would involve the flowback of oil to surface test equipment on the Spy Island pad.

The drilling of the NN01 well is scheduled to start at the beginning of December this year, potentially continuing until the middle of March. Eni may then drill the second well, the NN02 well, during the summer of 2018. Depending on results, Eni may conduct the horizontal sidetrack drilling during the winter of 2018-19.

Eni will presumably require an especially powerful drilling rig for the

Development of the Schrader Bluff in the Nikaitchuq field has been challenging because of the compartmentalized nature of the sands and the relatively viscous oil. Extreme extended reach drilling involved in its Nikaitchuq North project. The company’s plan anticipates the use of the Doyon Rig 15, or a similar rig.

The company is in the process of seeking approval from the federal Bureau of Ocean Energy Management for an exploration plan involving the proposed wells. The project will require a drilling permit from the Alaska Oil and Gas Conservation Commission.

At the end of February the federal Bureau of Safety and Environmental Enforcement approved the formation of the Harrison Bay Block 6423 unit, a unit encompassing 13 federal leases that include the Nikaitchuq North prospect.

Schrader Bluff formation

The producing oil reservoir in the Nikaitchuq field under state waters of the Beaufort Sea lies in the upper Cretaceous O/A sands of the Schrader Bluff formation, although Eni has also been considering development in another sand unit, the Schrader Bluff N sands. The Schrader Bluff formation is known to extend a long way out into the Beaufort Sea continental shelf. The formation lies within the Brookian sequence, the youngest and shallowest of the major North Slope petroleum-bearing rock sequences.

Development of the Schrader Bluff in the Nikaitchuq field has been challenging because of the compartmentalized nature of the sands and the relatively viscous oil. Eni has been using a combination of horizontal injection and production wells, with both electric submersible pumps and water injection boosting oil production. The company has been threading horizontal-multilateral sidetrack wells through the sand bodies.

On the continental shelf the Brookian typically lies on top of older rocks that have been faulted into large blocks. The Brookian sands are thought to thicken in the more downthrown rock sections between the faults.

Contact: Alan Bailey
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HB 111

Moriarty said the state takes in more revenue than industry “at every oil price — at high and low oil prices.”


The Senate version of the bill follows the lead of the House in stopping the unsustainable practice of the State of Alaska paying for tax credits,” Tarr said in a May 16 statement.

“However,” she said, “the Senate version of the bill has major problems that we just could not accept.”

Tarr cited changes in the House version designed “to make Alaska’s tax system work better in the current low oil environment.”

“The Senate Majority took our good bill that was developed in the open, with advice from the experts and the input of Alaskans, and replaced it with a bad bill that continues many of the flaws that have placed Alaska in our current precarious financial position,” Josephson said. “The best course of action is to take this bill to a conference committee where an acceptable compromise can be reached that protects the state during these low oil prices, while still keeping Alaska competitive as a place for future oil industry investments.”

Senators have argued that any substantial rewrite of the state’s oil tax system requires time and expert testimony than time allows this year.

—KRISTEN NELSON

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wells will result in measured depths of about 34,000 feet, the plan says.

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In a survey, seismic sound sources create sound waves, the subsurface echoes of which are recorded using a series of geophones placed along a line or on a grid pattern.

The complete process for a single survey takes up to a year to complete, a similar timeframe to that required for the Department of Revenue to audit the survey financial data, Decker said. Alaska’s Division of Geological and Geophysical Services’ Geologic Materials Center is responsible for providing access to publicly available seismic data, although the mechanism for doing this is a work in progress. The eventual concept is something akin to an online shop, where people would be able to order data based on various selection criteria. However, people would have to go to the GMC with a set of hard drives to actually pick the data up, Decker said. And, given constraints on state funding, the division is beginning to feel the time pressure over completing the seismic data management. It has improved the technology that it is using, has significant ly improved the efficiency of the data management process and is looking to rearrange some staff assignments, to make more people available to help with the effort, despite reductions in the state administration’s headcount, Decker said.

Wiggin likened the process of receiving the data from a survey to conducting an appraisal on a house prior to making a house purchase. The division must verify that the data from a survey is complete, that the data can be loaded and that the data are usable before the state can issue a tax credit certificate, he explained. In addition, the Alaska Department of Revenue must go through a parallel process, validating all of the receipts for payments associated with the survey, to verify the size of the credit that is due.

And, ultimately, under the terms of the tax credit rules, after 10 years the data from the survey needs to be made available to the public in some appropriate format.

The catch in the process is the quantity of data involved.

Raw measurements

The data consists of the raw measurements collected in the field when a survey was carried out. In a survey, seismic sound sources create sound waves, the subsurface echoes of which are recorded using a series of geophones placed along a line or on a grid pattern. For each sound signal, each geophone will record echoes as a seismic trace, digitized into thousands of individual numbers in a digital recording. Each echo represents a single point in the subsurface halfway between the sound source and the geophone. Seismic processing involves combining and filtering the individual traces to construct images of the subsurface.

But with the raw data consisting of a multiplicity of individual traces, collected using multiple seismic shots conducted at multiple locations, and with surveys increasing in size and complexity over the years, the scale of the data involved has grown exponentially since the seismic tax credit program went into operation.

Between 2004 and 2011 a survey might typically involve less than 5 terabytes of data (5,000 gigabytes). But, starting in 2012, the data volumes skyrocketed, said Paul Decker, the division’s resource evaluation manager. A recent survey involved a staggering 277 terabytes of data, he said.

Delivered on computer drives

The data are delivered to the division in batches at various times on a series of detachable hard computer drives — division staff have to download the data from each drive into the division’s own computer system. Each drive may contain 6 or 7 terabytes of data. And on a large survey up to 100 drives may be required to hold all of the data. Especially given that computer software has to reconcile the hit count for the downloaded data, to ensure data integrity, it may take two days to process a single disk, Decker explained. And issues can arise with having to deal with data in different variants of seismic data formats.

It doesn’t end there.

Quality control

In the interests of data security, the division makes a duplicate copy of the data as a backup. Division staff also take the uploaded data and transfer it into the division’s own seismic processing system, converting the data into the processing system’s data format. The examination of the data in this system forms an essential component of the data quality control, enabling division staff to verify data completeness, accuracy and self-consistency, Decker explained. The division could also use its own system to process the data as part of its resource evaluation function.

The processing system enables division staff to determine the exact geographic location from which the seismic reflections in each individual seismic trace originated. This location determination serves several purposes. First of all, it becomes possible to determine what percentage of the data was gathered from within an oil and gas unit, an essential parameter in determining what proportion of a survey is eligible for a tax credit.

In addition, when the data become available to the public, it will be possible, on request, to deliver just the data for a specific unit or land area, rather than for a complete survey or for a broader area of territory.

Another critically important reason for linking individual raw seismic traces to geographic locations is a need to exclude from the data available to the public any data gathered from privately owned subsurface land where the land owner does not wish the data to be released, Decker explained.

Data copy for export

Having quality controlled the data and tied the seismic traces back to locations, division staff then have to make another copy of the raw data, excluding from that data any seismic traces that need to be withheld because of land ownership considerations. This third data copy, stored in a standard format and file structure, then becomes the pool of data eventually available to the public.

The complete process for a single survey takes up to a year to complete, a similar timeframe to that required for the Department of Revenue to audit the survey financial data, Decker said.