**Aurora to sell**

Company wants to liquidate assets to pay off creditors in bankruptcy case

**By ERIC LUDJI**
Petroleum News

Aurora Gas LLC wants to liquidate its assets to pay its creditors.

In a plan filed with the U.S. Bankruptcy Court in Anchorage in early April and amended toward the end of the month, the local independent producer proposed selling off its assets, including its properties on the west side of Cook Inlet, to pay its creditors.

Aurora believes a sale could come close to recovering the nearly $1.5 million it owes creditors. The proposed liquidation sale would run through the end of October 2017. Aurora decided to liquidate its assets because its owner, Riek Oil Co., “has been unable to attract new investors and has therefore declined to invest additional funds,” according to the company. Over the past year, four prospective buyers have evaluated Aurora, according to the company, and one made a purchase offer in January 2016, “but it was declined as inadequate,” Aurora noted in its amended plan. “However, that company and several others continue to express an interest in the debtor or its producing assets, and debtor believes that the most value can be obtained in this manner,” Aurora noted.

**Up and down**
Aurora Power Resources Inc. and Orion Resources LLC created Aurora Gas in 1999 as a state oil and gas producer.

**Back to Arctic OCS**

Trump cancels Obama’s Beaufort and Chukchi oil and gas lease withdrawals

**By ALAN BAILEY**
Petroleum News

On April 28 President Donald Trump issued an executive order canceling several of President Barack Obama’s outer continental shelf land withdrawals from oil and gas leasing. The order, characterized as an America-first offshore energy strategy, also requires a review of the U.S. Bureau of Ocean Energy Management’s outer continental shelf five-year lease sale plan and a review of the economic impacts of development restrictions associated with marine national monuments.

In Alaska, the order cancels the withdrawal of the Chukchi Sea and large areas of the Beaufort Sea from oil and gas leasing. The order also revokes the Northern Bering Sea Climate Resilience Area that Obama had implemented.

Trump has ordered the Department of the Interior to consider revising its lease sale program to include at least one sale per year in each of the Chukchi Sea, the Beaufort Sea and Cook Inlet. The president also has ordered the development of a streamlined approach to the permitting of offshore seismic surveys.

**Conoco production up**

Recent projects continue to help North Slope oil production, prices also up

**By ERIC LUDJI**
Petroleum News

ConocoPhillips Co. reported $99 million in adjusted earnings from its Alaska operations in the first quarter, an improvement over 2016 earnings but down from recent quarters. The most active producer in Alaska was helped by increased oil production and improved oil prices, but would have posted a loss without a large impairment and tax adjustments.

Companywide, ConocoPhillips reported $790 million in net income during the quarter. The production trend should continue over the near term, if projects currently underway reach completion. The company said it had completed ice road construction at the GMT-1 pad at the Greater Mooses Tooth unit, which means that the project remains on track for a startup date in late 2018. The 1H NEWS drill site facility at the Kuparuk River unit is “ready for startup” at the end of this year. The company has also completed a 3-D seismic survey over the Greater Mooses Tooth unit, including its Willow discovery. Asked whether the company was doing anything to promote increased production in the immediate future, Executive Vice President of Production, Drilling and Projects Alan J. Hirschberg cited a “continuous” program of rotary drilling and coiled tubing drilling “driven by different kinds of new technology that allow you to see where to drill.”

Hirschberg was also asked about two liquefied natural gas projects in Alaska — the efforts to sell the

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**Pentex sale deadline extended**

The board of the Alaska Industrial Development and Export Authority during its April 27 meeting passed a resolution further extending the deadline for finalizing the terms for the sale of Pentex Alaska Natural Gas Co. to the Interior Gas Utility. The board had previously extended the deadline from March 31 to April 30 but has now moved the deadline to May.

**Icewine well surface casing set**

Accumulate Energy Alaska Inc. has completed the surface hole at the Icewine No. 2 well.

The local subsidiary of the Australian independent 88 Energy Inc. reached a depth of 2,978 feet on the onshore North Slope property currently drilling the intermediate section of the well, on the properties north of the central North Slope, south of the Prudhoe Bay unit, along the trend further extending the deadline for finalizing the terms for the sale of Pentex Alaska Natural Gas Co. to the Interior Gas Utility. The board had previously extended the deadline from March 31 to April 30 but has now moved the deadline to May.

**State OKs terminal purchase**

The state of Alaska has approved a purchase and sale agreement transferring ownership of Tesoro’s Terminal 1 at the Port of Anchorage to Petro Star Inc.

Petro Star is an Arctic Slope Regional Corp. subsidiary and ASRC said in a May 2 statement that Petro Star is now “one step closer to owning Terminal 1 at the Port of Anchorage.” The company said Tesoro would continue to operate Terminal 1 while Petro Star secures necessary state and federal permits.

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**FINANCE & ECONOMY**

**Government**

**Back to Arctic OCS**

Trump cancels Obama’s Beaufort and Chukchi oil and gas lease withdrawals

**Finance & Economy**

Conoco production up

Recent projects continue to help North Slope oil production, prices also up
A more cautious approach to forecast

**By ALAN BAILEY**

The task of trying to predict future oil production in Alaska is a touchy issue, especially given the criticality of production volumes to the state’s economy and the inherent uncertainties in any attempt to say what those future production levels might be. In the fall of 2016, for the first time, staff in Alaska’s Division of Oil and Gas took on the role of production forecasting, a role previously carried out by external consultants. And, in preparing their forecast, the in-house analysts took a conservative approach to their task, arriving at somewhat lower projected oil volumes than had been previously forecast.

In a talk to the Alaska Support Industry Alliance on April 22 about how the division staff had prepared their forecast, Pascal Umekwe, a commercial analyst with the division, explained that previous production forecasts had consistently overestimated future oil production levels. The forecasts, which in the past have covered a 10-year timeframe, have been reasonably accurate for the first year but have been very wide of the mark, much too optimistic, by year 10, Umekwe said.

One issue that can arise is the possibility of including in the forecasts oil field development projects that do not, in reality, pan out. And trying to forecast up to 10 years into the future tends to exacerbate this problem, Umekwe suggested.

**Three sources**

The division’s new methodology, as in previous methodologies, considers three sources of future oil production: continuing production from currently operational oil fields, expected production from new oil under development and potential production from developments that are under evaluation. But, whereas previous forecasts used a time horizon of 10 years for both the under development and under evaluation categories, the new methodology improves accuracy by shrinking the horizon to five years for under evaluation and to just one year for under development, Umekwe explained.

Moreover, in assessing future oil development the division analysts now use a more risk based approach, factoring in the probabilities of developments happening, rather than determining a single, predicted development path. And the methodology also considers the dependency of oil development on the future price of oil, Umekwe said.

**90 percent from existing fields**

The foundation of the forecast consists of the projected future production from existing oil pools — this component of the forecast accounts for about 90 percent of the estimated total future oil output. Division analysts obtained the data for this component of the forecast accounts for about 90 percent of the estimated total future oil output. Division analysts obtained the data for this component of the forecast by conducting what is referred to as a decline curve analysis for each producing oil pool, using the known characteristics of each pool and

**ENVIRONMENT & SAFETY**

11 PHMSA OKs restart of Anna platform

**EXPLORATION & PRODUCTION**

2 A more cautious approach to forecast

4 April ANS crude production holds level

Production averaged 566,234 bpd, up 0.2% from March average of 565,027 bpd; Cook Inlet production for March down 6% from February

11 Off-road closure for Upper Foothills

**GOVERNMENT**

11 Supreme Court declines polar bear case

11 No Senate Finance HB 111 CS yet

**NATURAL GAS**

11 RCA approves Furie gas supply for CEA
### Alaska Rig Status

#### North Slope - Onshore

<table>
<thead>
<tr>
<th>Rig Owner/Rig Type</th>
<th>Rig No.</th>
<th>Rig Location/Activity</th>
<th>Operator or Status</th>
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<tbody>
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<td>14</td>
<td>Kuparuk, Mobilizing</td>
<td>ConocoPhillips</td>
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<td>Dayon 1000 LE</td>
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<td>Prudhoe Bay 5-T-111, workover</td>
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<td>Dayon 0200 Used</td>
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<td>Alpine CDS-17</td>
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<td>Standing</td>
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<td>DXM 2000</td>
<td>141</td>
<td>Kuparuk, Stack Out</td>
<td>ConocoPhillips</td>
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<tr>
<td>TSM 7000</td>
<td>Arctic Fox #1</td>
<td>Prudhoe Bay, Ironside</td>
<td>Accumulable</td>
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#### Hilcorp Alaska LLC

<table>
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<tr>
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<tbody>
<tr>
<td>1</td>
<td>Milne Point</td>
<td>Hilcorp Alaska LLC</td>
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#### Nabors Alaska Drilling

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<td>CDB-2</td>
<td>Deadhorse</td>
<td>BP</td>
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<tr>
<td>CDB-3 (CTD)</td>
<td>Kuparuk</td>
<td>ConocoPhillips</td>
</tr>
<tr>
<td>2-5 (SCR-TD)</td>
<td>Deadhorse</td>
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<tr>
<td>Mid-Continental U36A</td>
<td>3-5</td>
<td>Deadhorse</td>
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<tr>
<td>4-5 (SCR)</td>
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<td>Available</td>
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<tr>
<td>7-5 (SCR-TD)</td>
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<td>9-5 (SCR-TD)</td>
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<td>16-6 (SCR-TD)</td>
<td>Mustang location</td>
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<td>2000 Carrig 1055E</td>
<td>33-5</td>
<td>Deadhorse</td>
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<tr>
<td>Academy AC Electric CARRIG</td>
<td>99AC  (AC-TD)</td>
<td>Deadhorse</td>
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<tr>
<td>OIME 1000</td>
<td>19AC (AC-TD)</td>
<td>Oooguruk, Cold Stacked</td>
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<tr>
<td>Superior 700 UEE</td>
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<td>Available</td>
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#### Park Drilling Arctic Operating Inc.

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<td>NOV AOS-10G</td>
<td>Prudhoe Bay 3-18</td>
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<td>NOV AOS-10G</td>
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#### North Slope - Offshore

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</thead>
<tbody>
<tr>
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#### Nabors Alaska Drilling

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<tbody>
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<td>NE-12</td>
<td>Spy Island, NIK North Mod</td>
<td>ENI</td>
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#### Cook Inlet Basin – Onshore

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<td>BlueCrest Alaska Operating LLC</td>
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</tr>
<tr>
<td>169</td>
<td>Stacked</td>
<td>Hilcorp Alaska LLC</td>
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#### Cook Inlet Basin – Offshore

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<th>Rig No.</th>
<th>Location/Activity</th>
<th>Operator or Status</th>
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</thead>
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<tr>
<td>H10 (TD)</td>
<td>Platform C, Stacked</td>
<td>Hilcorp Alaska LLC</td>
</tr>
<tr>
<td>51</td>
<td>Steelhead Platform, Stacked</td>
<td>Hilcorp Alaska LLC</td>
</tr>
<tr>
<td>51</td>
<td>Monopod Platform, Drilling</td>
<td>Hilcorp Alaska LLC</td>
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</table>

#### Baker Hughes North America rotary rig counts*

<table>
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<tr>
<th>Country</th>
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<th>April 21</th>
<th>Year Ago</th>
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<tbody>
<tr>
<td>United States</td>
<td>870</td>
<td>857</td>
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<td>Canada</td>
<td>85</td>
<td>99</td>
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<tr>
<td>Gulf of Mexico</td>
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<td>20</td>
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*Issued by Baker Hughes since 1944

# Mackenzie Rig Status

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<th>Rig Owner/Rig Type</th>
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<th>Operator or Status</th>
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<td>SDC</td>
<td>Set down at Roland Bay</td>
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<tr>
<td>Central Mackenzie Valley</td>
<td>SDC</td>
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<tr>
<td>Akita</td>
<td>TSM-700</td>
<td>Racked in Norman Well, NT</td>
<td>Available</td>
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</tbody>
</table>

The Alaska - Mackenzie Rig Report is sponsored by:

Baker Hughes North America rotary rig counts*

### Mackenzie Rig Reports

- Alaska - Mackenzie Rig Report
- Cook Inlet Basin – Onshore
- Cook Inlet Basin – Offshore
- North Slope - Onshore
- North Slope - Offshore
- Cook Inlet Basin – Onshore
- Cook Inlet Basin – Offshore
- Alaska - Mackenzie Rig Report
- Cook Inlet Basin – Onshore
- Cook Inlet Basin – Offshore
- North Slope - Onshore
- North Slope - Offshore
- Cook Inlet Basin – Onshore
- Cook Inlet Basin – Offshore
- Alaska - Mackenzie Rig Report
- Cook Inlet Basin – Onshore
- Cook Inlet Basin – Offshore
- North Slope - Onshore
- North Slope - Offshore
- Cook Inlet Basin – Onshore
- Cook Inlet Basin – Offshore
- Alaska - Mackenzie Rig Report
- Cook Inlet Basin – Onshore
- Cook Inlet Basin – Offshore
- North Slope - Onshore
- North Slope - Offshore
- Cook Inlet Basin – Onshore
- Cook Inlet Basin – Offshore
- Alaska - Mackenzie Rig Report
April ANS crude production holds level

Production averaged 566,234 bpd, up 0.2% from March average of 565,027 bpd; Cook Inlet production for March down 6% from February

By KRISTEN NELSON
Petroleum News

Alaska North Slope crude oil production averaged 566,234 barrels per day in April, up 0.2 percent from a March average of 565,057 bpd, a month-over-month increase of 1,177 bpd. Production this April is up 11.8 percent from April 2016, when ANS production averaged 506,441 bpd, but that comparison is based on an anomaly: ANS April 2016 production was down 6.9 percent from a March 2016 average of 543,735 bpd because of a power outage at Prudhoe Bay on April 24, 2016, which drove Prudhoe production down 14.5 percent month-over-month.

The largest April-over-March ANS increase this year was at the ConocoPhillips Alaska-operated Alpine field, which averaged 65,727 bpd in April, up 3.9 percent from a March average of 63,278 bpd, an increase of 2,449 bpd. Alpine includes production from satellites at Fiord, Nanuq and Quinnik. Information for April is from the Alaska Department of Revenue’s Tax Division which reports North Slope oil production consolidated by major production centers and provides daily production and monthly production. More detailed data, including Cook Inlet and individual North Slope fields and pools, is reported by the Alaska Oil and Gas Conservation Commission on a month-delay basis.

AOGCC data for March shows 82 percent of Alpine field production from the main reservoir, with 13 percent from Fiord, 2.5 percent from Nanuq and 2.8 percent from Quinnik. The Kuparuk River field and Lisburne also had month-over-month production increases.

The ConocoPhillips-operated Kuparuk River field had the largest per-barrel increase, up 1,459 bpd, averaging 147,287 bpd in April, a 1 percent increase from a March average of 145,828 bpd, and a 4.2 percent year-over-year increase from April 2016 production of 141,307 bpd. Kuparuk includes satellite field production from Meltwater, Tabasco, Tarn and West Sak, as well as from the Eni-operated Nikaitchuq field and the Caesius Alaska-operated Oovarsuk field.

AOGCC data show Nikaitchuq averaged 21,473 bpd in March, up 4.4 percent, 905 bpd, from a February average of 20,568, and Oooguruk averaged 14,324 bpd in March, up 0.3 percent, 44 bpd, from a February average of 24,280 bpd.

Nikaitchuq production is down 15.6 percent from a March 2016 average of 25,442 bpd. Oooguruk is up 49.3 percent from a March 2016 average of 9,596 bpd. Lisburne, operated by BP Exploration (Alaska) and a part of greater Prudhoe Bay, averaged 25,225 bpd in April, up 3 percent, 746 bpd, from a March average of 24,479 bpd.

Prudhoe, Endicott down
BP-operated Prudhoe and Hilcorp Alaska-operated Endicott had month-over-month production declines. Prudhoe averaged 1,626 bpd in April, down 2.8 percent, 451 bpd, from a March average of 16,077 bpd, but up 51.2 percent from April 2016, when production averaged 10,231. Endicott includes production from satellites at Eider, Minke and Sag Delta, as well as volumes from the Badami field operated by Hilcorp Alaska and Savant Alaska and from the ExxonMobil Co.-operated Point Thomson field.

AOGCC data show Badami averaged 912 bpd in March, up 2.7 percent, 24 bpd, from a February average of 888 bpd, but down 12.6 percent year-over-year from a March 2016 average of 1,044 bpd. Point Thomson came online in April 2016, so year-to-date production data are not yet available.

The field averaged 6,513 bpd in March, up 779 percent, 5,772 bpd, from a February average of 925 bpd. Tax Division data for February show production volumes from Endicott in the 9,500-10,500 bpd range for most of the month, not far above averages prior to Point Thomson coming online and probably indicating that Point Thomson was not contributing much production. In March, by contrast, Endicott volumes were above 15,000 bpd for more than half the month, indicating fairly steady Point Thomson production, with comparable figures for April.

At BP-operated Prudhoe, April production averaged 312,369 bpd, down 1 percent, 3,026 bpd, from a March volume of 315,395 bpd. Prudhoe includes satellite production from Aurora, Borealis, etc.
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While a greater-than-normal number of new normally be conducted to sustain a field. They considered routine, drilling that would come online within the next year. Although many of these projects consist of in-field drilling, already sanctioned to be carried in place, including facility access and funding, and must be scheduled to come on line within the next five years.

Example projects in this under evaluation category include continuing drilling from the CD-5 pad in the ConocoPhillips Colville River unit; ConocoPhillips Greater Mooses Tooth 1 and Greater Mooses Tooth 2 developments; Hilcorp’s Moose Pad development in the Milne Point unit; and ConocoPhillips’ Moraine project in the Kuparuk River unit. Some projects within this category have currently been postioned. These consist of Caelus Energy Alaska’s Nuna and Niaqutuq expansion projects in the Oooguruk field; Brooks Range Petroleum’s Mustang project; additional drilling by Eni in the Niiitlachui field; and ConocoPhillips’ 1H NEWS project in the Kuparuk River unit.

Layering under development and under evaluation tranches onto the decline curve data for existing pools suggests a future oil production decline rate of about 4 percent, compared with an historic decline rate of about 5.5 percent.

Future development
Moving into the longer term, there is a list of projects, some of which could result in large future production volumes, but which lie too far in the future and have too much associated uncertainty for inclusion in the division’s official oil production forecast. It is possible to assess the potential impact of these projects by layering publicly available production estimates for the projects on top of the official forecast. And that impact would be significant. The projects in question consist of ConocoPhillips’ Fierd West project; ASRC Energy’s Placer project; Armstrong Energy’s Pikka project; ConocoPhillips’ Tolkat project; ConocoPhillips’ Willow project; Hilcorp Alaska’s Liberty project; major gas sales from ExxonMobil’s Point Thomson field; Caelus’ Smith Bay project; and the possibility of developing heavy oil in the Ugnu formation of the central North Slope.

In late April Paul Decker, DOG’s reservoir evaluation manager, talked to Alaska’s Senate Finance Committee about the various projects that fall into the state’s under evaluation and future development categories. Petroleum News reported on Decker’s talk in its April 30 issue.

Contact: Alan Bailey
at bailey@petroleumnews.com

continued from page 2

DOR FORECAST

the analysts’ judgement to project current production into the future. Unlike what has been done in the past, division staff conducted this analysis at the level of complete oil pools, rather than for individual wells within the pools.

The analysts developed hundreds of potential production profiles for each pool, before combining these profiles statistically using commercially available software, to obtain a mean and a range for the possible future production profiles. These results were then aggregated in a spreadsheet, to generate 90 percent confidence levels and a mean for the future production profile for the entire state.

The analysts then considered new oil under development, oil expected to originate from development projects slated to come online within the next year. Although many of these projects consist of in-field drilling, already sanctioned to be conducted out, the analysts did not include drilling that they considered routine, drilling that would normally be conducted to sustain a field. While a greater-than-normal number of new wells in a field should correctly be considered as new development, the inclusion of routine drilling within the new development category would likely result in the double counting of oil produced as a consequence of this drilling, Umekwe said.

The inclusion of the under development production tranche adds a thin wedge of new production onto the projected production profile for existing oil pools.

Under evaluation
The under evaluation tranche of the production forecast forms a series of slightly thicker wedges on top of the under development category, with the start of each wedge representing a new development coming on line. If inclusion in the tranche, a project must have most features critical to success in place, including facility access and funding, and must be scheduled to come on line within the next five years.

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continued from page 4

APRIL PRODUCTION

Midnight Sun, Orion, Polaris, Sag River, Schrader Bluff and Ugnu, as well as from the Hilcorp-Alaska-operated Milne Point and Northstar fields.

AOGCC data show Milne Point averaged 21,687 bpd in March, up 10.4 percent from a February average of 19,652 and up 11.1 percent from a March 2016 average of 19,518 bpd, while Northstar averaged 7,874 bpd in March, up 41.8 percent from a February average of 5,553 and up 42.9 percent from a March 2016 average of 5,510 bpd.

Hilcorp Alaska’s Trading Bay field averaged 1,663 bpd in March, up 3.24 percent, 52 bpd, from a February average of 675 bpd.

Hilcorp Alaska’s Trading Bay field averaged 1,663 bpd in March, up 3.24 percent, 52 bpd, from a February average of 675 bpd.

Hilcorp’s McArthur River field, Caelus’ largest, averaged 3,254 bpd in March, down 14.4 percent, 548 bpd, from a February average of 3,802 bpd.

Glacier Oil & Gas’ West McArthur River field averaged 1,328 bpd, down 7 percent, 99 bpd, from a February average of 1,428 bpd.

Hilcorp’s Swanson River field averaged 1,924 bpd in March, down 3.3 percent, 65 bpd, from a February average of 1,989 bpd.

BlueCrest’s Hansen field, the Cosmopolitan project, averaged 146 bpd in March, down 2.5 percent, 4 bpd, from a February average of 150 bpd.

Hilcorp’s Beaver Creek field averaged 181 bpd, down 1 percent, 2 bpd, from a February total of 183 bpd.

ANS crude oil production peaked in 1998 at 2.1 million bpd. Cook Inlet crude oil production peaked in 1979 at more than 227,000 bpd.

Contact: Kristen Nelson
at knelson@petroleumnews.com

PETROLEUM NEWS • WEEK OF MAY 7, 2017

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NABORS—MISSION TO ZERO

Better.
Higher grades boost Fort Knox

Kinross Gold Corp. May 2 reported that its Fort Knox Mine near Fairbanks, Alaska, produced 93,038 ounces of gold during the first quarter, a nearly 6 percent increase over the 87,800 oz recovered there during the first three months of 2016. The company attributes the 5,238-oz increase to higher grade ore being fed through the mill. The mill at Fort Knox processed 2.93 million metric tons of ore averaging 0.75 grams per metric ton gold during the first quarter, compared to 3.2 million metric tons averaging 0.66 g/t during the same period last year. Additionally, 3.9 million metric tons of ore averaging 0.23 g/t was processed on the heap leach pad, compared to 7.5 million metric tons averaging 0.26 g/t during the first three months of 2016. The per-ounce cost of Fort Knox gold sold during the quarter was US$617, compared with US$708 during the same period last year. Kinross said this 13 percent cost reduction is primarily due to lower labor and contractor costs, and more ore mined relative to operating waste.

Red Dog PILT agreement finalized

The Northwest Arctic Borough and Teck Alaska, operator of the Red Dog Mine, May 3 announced that they have finalized a new 10-year payment in lieu of taxes agreement. Under the terms of the agreement, Red Dog would flow roughly US$220 million to US$26 million into the borough each year under the new agreement. Roughly US$14 million to US$18 million of these funds would be paid directly to the Northwest Arctic Borough each year, a payment that would be calculated on a percentage of Red Dog’s fixed asset value. The agreement also includes the establishment of a new village improvement fund. Administered by the borough, with input from the 11 villages it encompasses, this fund would be earmarked for community programs, services and infrastructure. “This agreement is a good outcome for the borough and its residents. It will create additional revenue for services, projects, and long-term sustainability,” said Northwest Arctic Borough Mayor Clement Richards. “It’s taken several years, but we’re pleased to have reached an agreement that will go some lengths to helping meet the needs of our residents, which comes at a critical time when state community revenue sharing dollars are being phased out.” With the new PILT agreement in place, Red Dog is exempt from a severance tax adopted by the Northwest Arctic Borough assembly in 2009 and updated in 2015. With the new agreement, Teck has agreed to discontinue the legal action it took in opposition to the severance tax. “This agreement will provide enhanced resources for the region while also supporting Red Dog’s ability to continue generating good jobs and local economic opportunity,” said Red Dog General Manager Henri Letient. “We’re pleased with the new agreement.”

Beginning production in 1892, the Apollo gold mine on Unga Island is the first commercial hardrock mine in Alaska. Today, Redstar Gold is seeking new deposits of high-grade gold near this historic operation.

Early start at Unga

Redstar targets extension of high-grade gold outlined at Shumagin zone

By SHANE LASLEY

Mining News

Following up on its success in 2016, Redstar Gold Corp. has gotten off to an early start on expanding the high-grade gold zones at its Unga project in Southwest Alaska.

The nearly 60,000-acre Unga property blankets the Shumagin gold zone, that each cut roughly six miles across Unga Island. Apollo-Sitka hosts Apollo, a historic mine that produced roughly 150,000 ounces of gold from 1892 to 1913. Shumagin, a parallel structural trend about 2,000 meters to the northwest, has been Redstar’s primary focus of exploration and is the starting point of the 2017 program.

“Based on the results and success from 2016, Redstar increased the drilled strike length of the Shumagin gold zone from approximately 300 meters to approximately 950 meters, and is now well-financed, excited, prepared and focused to execute a multi-million-dollar expansive exploration program to highlight the potential of the multiple gold zones with the Unga gold project, commencing firstly with the Shumagin gold zone,” Redstar President and CEO Peter Ball said.

2016 success

The seven holes drilled during the fall 2016 program an Unga targeted the expansion of high-grade gold mineralization over a roughly 750-meter stretch of the Shumagin zone.

The first two holes, 16SH019 and 16SH020, tested the potential of expanding the high-grade zone deeper and to the southwest, both holes of which tapped the targeted structure.

16SH020, the most southerly hole drilled so far in the Shumagin zone, cut three gold intervals, including 0.9 meters of 14.95 g/t gold and 0.9 meters of 11.65 g/t gold in hole 16SH024.

Shumagin has once again delivered double digit gold grades consistently in almost every drill hole,” Ball said.

Overall, this program extended the drilled section of the Shumagin zone to 950 meters and provided a launching point for the robust 2017 exploration program now underway.

Tracing Shumagin southwest

Redstar kicked off its 2017 program at Unga in early April with a surface geophysical program designed to refine targets southwest of the Shumagin zone for a 5,000-meter drill program slated to start later this month. This program, which is now complete, included 15.73 line-kilometers (9.77 miles) of magnetic and 8.75 line-kilometers (5.44 miles) of induced polarization surveys across the Shumagin zone and 54.44 line-kilometers (33.83 miles) of magnetic survey at Orange Mountain, a large zone of alteration about 3,000 meters to the southwest along the longer Shumagin structural trend.

This work included surveying well-known geological features and high-grade gold mineralization already identified at the Shumagin zone, which will help identify other deeper, hidden targets towards Orange Mountain, which is believed to be the hydrothermal center that fed gold-bearing fluids to the Shumagin trend.

Using the data from the survey, the Redstar team will look for the best untested structures for drilling between Shumagin zone and Orange Mountain.

“Our technical team is now finalizing a drill targeting exercise, which we anticipate to complete in the next week, allowing drilling to commence in May,” Ball said on April 27.

In addition to drilling, Redstar plans to complete metallurgical work on the high-grade gold and silver mineralization across the Shumagin zone and continued exploration of the Apollo-Sitka trend this year.

EXPLORATION
This bar contains 81.4 oz of gold recovered from processing 88 tons of bulk sample material from the Ace of Spades vein at the Golden Predator’s 3 Aces project in eastern Yukon.

More drilling, added gold coming to 3 Aces

Golden Predator Mining Corp. May 3 said it is doubling the 2017 drill program at its 3 Aces gold project in southeast Yukon to 40,000 meters. Since the February start of the program, 6,900 meters of reverse circulation drilling has been completed at the Spades zone. This work has tested the depth and strike extensions of the high-grade gold found at the Ace of Spades vein, deeper stockwork mineralization found there, and initial targets at the Jack, Queen, Seven and Three of Spades targets. The company has also restarted the processing of the high-grade bulk sample material from the Ace of Spades following the refurbishment of the processing plant. In 2016, the company recovered 81.4 ounces of gold and 7.8 oz of silver from 88 short tons of this material. Daily head and tail assays collected from the plant since recommissioning indicate it is recovering more than 80 percent of the gold recovered by gravity with estimated throughput of 1,25 short tons per hour. Golden Predator said it has roughly another 670 short tons of Ace of Spades bulk sample material stockpiled that is slated to be processed with-in the next two months. The company plans to conduct additional bulk sampling under its existing permit in order to reconcile drill sample results to contained gold, and to establish the metallurgical characteristics of the various mineralized veins at 3 Aces.

TerraX expands new Yellowknife gold find

TerraX Minerals Inc. May 2 reported results from the first 22 holes of its 43-hole winter drill program at the Yellowknife City Gold Project. Six of the holes were drilled at Dave’s Pond, a new discovery at the Northbelt property, a section of the expansive Yellowknife project that extends north from the Northwest Territories capital. TSO16-005, the discovery hole at Dave’s Pond, cut 2.40 meters averaging 9.89 grams per metric ton gold. All six holes at this targeted hit gold mineralization. Highlights include: 8.8 meters averaging 2.33 grams per metric ton gold in hole TSO17-015; 3.3 meters of 6.96 g/t gold in TSO17-016; 2.0 meters of 4.82 g/t gold in hole TSO17-017; and 1.9 meters of 13.96 g/t gold in hole TSO17-019. These holes have extended the Dave’s Pond discovery to 400 meters along strike. “The high grade multi-gram gold intersections confirm the continuity of the Dave’s Pond structure along strike,” said TerraX CEO Joseph Campbell. “The consistency of the mineralization along strike and at depth leaves this area open for expansion when drilling at Dave’s Pond resumes in July 2017. Dave’s Pond will provide a high grade addition to the adjacent bulk tonnage Sam Otto Mars Zone target, which is sub-parallel and 300 meters to the west of Dave’s Pond.” The remaining 16 holes for which assays have been received were drilled in portions of the Misspickett target covered by Walsh Lake and requiring winter

SAFETY

MSHA concerned about lone miners

Five miners lost their lives while working alone at mines in the United States during the first quarter of 2017, prompting the U.S. Department of Labor’s Mine Safety and Health Administration to launch a campaign to raise awareness of the dangers miners face when working in isolation.

There were eight mining fatalities in the U.S. during the first three months of this year, five of which were miners who were working alone.

MSHA began to become concerned about these unaccompanied miners when two such workers died in underground operations over a 24-hour span at the end of January. Both were working alone in restricted areas of underground mines and were discovered missing when they were unaccounted for at the end of their shifts.

Three more such fatalities over the next two months raised this concern, prompting the federal safety administration to issue and reiterate best practices for both mine operators and miners working alone.

Among the guidelines for operators, MSHA advises:

- Make an assessment to determine if the task can be safely completed by a miner working alone.
- Provide training to assure the miner can safely complete the task while alone.
- Provide the unaccompanied miner with limits to work that can be completed while alone.
- Know where the miner will be at all times.
- Establish and follow routine communication procedures.
- Account for miners working alone at intervals appropriate to the job assignment.
- Account for all miners at the end of each assignment and shift.

For the unaccompanied miner:

- Determine if you have the skills to safely complete the task alone.
- Inform a responsible person where you will be working and traveling in the mine.
- Identify and correct hazards, if hazards can’t be corrected, inform supervisor.
- Don’t take shortcuts.
- Follow established communication procedures.
- Use established check-in/check-out procedures to assure you are accounted for.

“Mine operators should have procedures in place so they can account for the whereabouts of every miner at the beginning of the shift, while they are working and at the end of the shift,” said Patricia Silvey, deputy assistant secretary for operations, MSHA.

“They should assess whether a particular task can be safely completed by a miner working alone, and always follow established communication practices.”

The focus on miners working alone will include MSHA inspectors and training specialists engaging miners and mine operators in “walk and talks” during regular inspection visits. These talks will emphasize accounting for all miners at all times and provide operators with best practices for working alone.

continued from page 7

NUGGETS

This outcome which was achieved through cooperation and constructive dialogue between Red Dog, the Northwest Arctic Borough and NANA. Red Dog was developed through an innovative operating agreement between Teck and NANA, an Alaska Native regional corporation owned by the Iñupiat people of northwest Alaska. NANA owns the land that holds the deposits at Red Dog and the mine’s mill facilities, and receives 30 percent of the net proceeds from the operation. The focus on miners working alone will include MSHA inspectors and training specialists engaging miners and mine operators in “walk and talks” during regular inspection visits. These talks will emphasize accounting for all miners at all times and provide operators with best practices for working alone.

PALMER road extension considered

Bureau of Land Management April 28 announced a 30-day public comment period on a request from Constantine Metal Resources Ltd. to extend the planned road at its Palmer project near Haines by 800 feet. Last year, Constantine gained approval to build 2.5 miles of new road that will provide access to the Glacier Creek deposit at Palmer. This authorization by BLM allows for up to 40 acres of ground disturbance to carry out exploration on their federal claims. The extension requested by Constantine would involve about 0.5 acres of disturbance, which would be within the 40 acres originally permitted. The extension would provide access to the Mental Health Trust lands the company leased from Alaska. While within the total area already authorized and bonded for disturbance, BLM is requiring further public, stakeholder, and agency review, including a National Environmental Policy Act analysis for the road extension. The public comment period on Constantine’s proposed plan ends on May 28. The proposed road plan modification can be reviewed and commented on at https://eplanning.blm.gov/epl-frontoffice. Comments may also be submitted to the BLM Glennallen Field Office, Attn: Constantine, P.O. Box 147, Glennallen, AK 99588.
Petroleum News  |  Week of May 7, 2017

Northern 6 of 9

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Located 525 miles northeast of Fairbanks, Fort Knox is the largest gold producing mine in Alaska. During 2016, Fort Knox demonstrated the two milestone events, the seven-millionth-ounce of gold produced and the 20-year anniversary of commercial production.

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drilling. The goal of this reconnaissance drilling was to identify structures, based on shearing, alteration and mineralization, have the potential to host high-grade gold similar to the Mispickel discovery. One hole drilled at Mispickel last year cut 8.0 meters of 60.6 g/t gold. TerraX said two of the four areas require follow-up. Two holes drilled in North Structure cut wide zones of anomalous gold and discrete areas of visible shearing, mineralization and alteration. TerraX believes these two holes indicate the potential for discovery of high grade shoots on the mineralized shear zones. Similar indicators were identified in a new structure 400 meters west of Mispickel. Of the 21 holes for which assay results are pending, 15 holes were drilled at the San Otto, Burting Lake and Jackson Lake areas of the Northbelt property and six holes were drilled to test the high-grade Cot Shear and New Vein targets at Southbelt, the section of YCGP that extends south from Yellowknife.

Agnico advances two new Nunavut mines

Agnico Eagle Mines Ltd. April 27 reported continued strong gold production from its Meadowbank Mine in Nunavut and good progress at Amaruq and Meliadine, two advanced gold projects in the territory. Meadowbank produced 85,370 ounces of gold during the first quarter, an 18 percent increase over the 72,211 oz recovered during the same period last year. While the gold production was up due to high-grade ore, Agnico Eagle CEO Sean Boyd said the amount of ore processed by the mill was less than expected due to challenging winter conditions at the mine. Meadowbank currently has enough reserves to last until about mid-2018. The company is currently studying areas to extend the mine-life into 2019, which is when the neighboring Amaruq project is expected to come online. Amaruq is to be developed as a satellite to Meadowbank, which lies about 50 kilometers (31 miles) to the southeast. Going into 2017, Amaruq hosted 16.9 millimetric tons of open pit indicated mineral resource averaging 3.88 grams per metric ton (2.12 ounces) gold, and 4.9 millimetric tons of open pit inferred mineral resource averaging 4.81 g/t (76.933 oz) gold. Additionally, the property hosts 6.8 millimetric tons of underground inferred mineral resource averaging 6.22 g/t (1.4 million oz) gold. The company anticipates it will have the permits for Amaruq by mid-2018 and production is currently forecast to begin in the second half of 2019. The initial plan calls for the production of roughly 2.6 million oz of gold between 2019 and 2024, with pre-mining activities starting in 2018 at the Whale Tail deposit. Amaruq is expected to average 396,000 oz of gold annually in years two through six. The Amaruq ore will be hauled to the Meadowbank mill, which is expected to operate at 5,000 metric tons per day. A road connecting Amaruq to Meadowbank is currently under construction and is expected to be completed by the end of this year. “We’re currently about 40 kilometers or so along of the planned 64-kilometer road,” Boyd reported. Roughly US$78 million will be spent on capital costs at Amaruq in 2017, primarily on completion of the road, additional technical studies, and the procurement of materials and equipment for the 2018 construction season. Additionally, the company is planning to invest US$22 million this year on a 75,000-metre drill program at Amaruq. Roughly 17,000 meters has been drilled since this program began in April. Much of the drilling has targeted Whale Tail, the initial deposit to be developed at Amaruq. The highlight of this work came in hole AMQ17-1109, which cut 4.2 meters of 10.9 g/t gold from a depth of 139 meters. This intercept is just below the shallower part of the pit, suggesting a potential to increase the depth of the western part of the Whale Tail pit. To date, the Whale Tail deposit has been defined over at least 2,300 meters along strike and to a depth of 732 meters. The company is also drilling V Zone, a potential secondary source of ore at Amaruq. At Meliadine, another Nunavut gold project about 25 kilometers (15 miles) from the town of Rankin Inlet, Agnico said it is on schedule to begin production in the second half of 2019. Meliadine is expected to produce roughly 5.3 million oz of gold over a 14-year span. This only represents about half of the reserves and resources identified there. In the first quarter of 2017, approximately 1,200 meters of underground development was completed, which is slightly ahead of schedule. Construction activities are progressing well with the commissioning of the concrete batch plant underway and the completion of full camp facilities expected by the end of May. “We’re well positioned for a strong season of construction and development this year,” Boyd said.

Seabridge raises $22M to explore KSM, Iskut

Seabridge Gold Inc. April 28 announced the closing of a $22 million flow-through financing. As a result, Seabridge issued 1.1 million flow-through shares at $20 each, which is a 27.7 percent premium to the closing price on the day the offering was announced. Under Canada’s Income Tax Act, a flow-through financing allows mineral exploration companies to transfer their exploration expenses to individual investors that purchase the shares. Most exploration companies do not generate revenues, so they do not need the tax write off, however, the flow-through investor can apply his portion of the exploration expenses to reduce or eliminate his tax liability. The exploration company must spend the flow-through dollars raised on a qualifying mineral project in Canada within three years of closing financing. Seabridge is using the money raised with this financing to fund the 2017 exploration program at its KSM and Iskut projects in northwestern British Columbia. Seabridge Chairman and CEO Rudi Fronk noted that “This year’s exploration program includes drilling some of the most exciting targets in our history. We also aim to continue to improve the prospective economics of our KSM project.” Four of the zones at the KSM property, KSM East - Kerr, Sheep Mountain, Mitchell and Iron Cap – contain 2.2 billion metric tons of proven and probable reserves averaging 0.55 grams per metric ton (38.8 million lbs. of gold) and 0.21 percent of 0.2 million pounds) copper, 2.6 g/t (183 million oz.) silver, and 42.6 parts per million (207 million lbs.) molybdenum. These reserves support a 51-year mine that would average 540,000 oz. of gold, 156 million lbs. of copper, 2.2 million oz. of silver, and 1.2 million lbs. of molybdenum annually, according to a prefeasibility study published in September. Iskut, about 30 kilometers (19 miles) northwest of KSM, is an early staged gold-silver project acquired by Seabridge in 2016. Seabridge closed a separate CS1.7 million financing in mid-April.

Goldcorp drills outlying target at Coffee

Goldcorp Inc. April 26 reported preliminary results from the 2017 drill program at its Coffee gold project in the Yukon. Drilling at the company’s flagship project in the Northwest Territories was completed roughly US$15 million of sustaining costs of US$550/oz. Goldcorp said First Nation and community consultation activities at Coffee in 2016 and plans to test a number of targets within a 10-kilometer radius of the planned mine with core drilling this summer. Goldcorp has also submitted an environmental and socioeconomic assessment application for Coffee in the first quarter, kicking off the permitting process for developing a mine at the project. The company said First Nation and community consultation activities are progressing, along with the review and optimization of the feasibility study and planning for upgrades to site infrastructure. Goldcorp expects permitting and construction to take about four years, with commercial production targeted for 2021. ●
EXPLORATION & PRODUCTION

Off-road closure for Upper Foothills

The Upper Foothills is no longer open for off-road travel, effective immediately, the Alaska Department of Natural Resources’ Division of Mining, Land and Water said May 3. The division said snow pack deterioration in the area is widespread, with large swaths of vegetation visible. While snow quality can be good in localized areas and may support tundra travel, snow cover varies across the area, and with air temperatures continuing to warm and clear skies, the sun is further compromising the snow pack.

The closure was effective at 10 a.m. May 3, and the division said all off-road travel in progress must be completed within 72 hours.

The division said it would consider travel extensions on a case-by-case basis, but with exceptions requiring prior approval of an authorized representative of the division.

The western and eastern coastal areas are still open for off-road travel.

The division said summer off-road travel may begin July 15, but applies only to holders of valid permits with specific project approval. Such approval is limited to vehicles approved by the division for summer off-road travel.

—PETROLEUM NEWS

ENVIRONMENT & SAFETY

PHMSA OKs restart of Anna platform

The Pipeline and Hazardous Materials Safety Administration has approved Hilcorp Alaska’s plan to restart oil production from the Anna platform in the Cook Inlet. In an April 27 letter to Hilcorp, Chris Hoidal, PHMSA’s western region director, said that his agency had reviewed a restart request from Hilcorp, together with supporting documentation, and had decided to approve Hilcorp’s plan.

Hilcorp had shut down the platform following the appearance of some spilled oil on the sea surface after people on the platform had felt a jolt to the platform’s structure. Initially the company suspected a leak in the subsea oil pipeline that runs between the Bruce and Anna platforms — the company shut in the Anna platform and the subsea pipeline, and displaced oil in the pipeline with seawater.

However, pressure testing of the line and a subsequent inspection of the pipeline by divers showed that the line was in fact intact. An investigation determined that the spilled oil had come from the Anna platform’s fuel gas flare system during a repair to the system. Ice floating in Cook Inlet had hit the platform and caused the jolt, which had no connection with the oil spill.

Hilcorp has said that it has taken corrective measures to prevent another oil spill during operations on the flaring system.

—ALAN BAILEY

GOVERNMENT

Supreme Court declines polar bear case

The Supreme Court of the United States has declined to take up a court case in which a number of organizations have appealed against the U.S. Fish and Wildlife’s designation of critical habitat for the polar bear. In a May 1 order the court denied a petition to hear the case, thus causing a Court of Appeals for the 9th Circuit opinion upholding the habitat designation to stand.

Fish and Wildlife issued the polar bear critical habitat designation in November 2010, following the 2009 listing of the animals as threatened under the terms of the Endangered Species Act. The designation covered 187,157 square miles, including a vast offshore area; barrier islands and spits; and polar bear denning habitat along Alaska’s northern coast.

The federal District Court in Alaska rejected the critical habitat designation in a 2013 ruling.

The federal District Court in Alaska rejected the critical habitat designation in a 2013 ruling.

The agreement, which ends on March 31, 2033, entails an interruptible supply that goes into effect immediately and a firm supply of about 1.8 billion cubic feet per year starting on April 1, 2023. The firm supply guarantees a minimum daily rate of 5 million people per day. Under the agreement, Chugach Electric has the option of increasing the firm supply by up to 1.8 billion cubic feet per year. And the utility can purchase additional firm deliveries of up to 2 million cubic feet per day, beginning in year seven of the contract.

The minimum price of gas under the interruptible supply would increase from $5.75 per thousand cubic feet in year one of the contract to $6.25 per mcf in 2033. The price of firm gas supplies would start at $7.16 per mcf in 2023, increasing to $7.98 in 2033.

The gas would presumably originate from Furie’s Kitchen Lights gas field, offshore in Cook Inlet. The gas would be delivered from the gas field to the Kenai Beluga Pipeline on the Kenai Peninsula, or from gas that Furie holds in storage in the Cook Inlet Natural Gas Storage Alaska facility.

In approving the gas sales agreement, the commission said that the agreement is consistent with the commission’s statutory obligation to recognize the benefit of a utility achieving a diversified portfolio of gas supplies with different pricing mechanisms from different suppliers. Currently Chugach Electric obtains most of its gas from Hilcorp Alaska. Moreover, the Furie agreement is consistent with a need to assure the public of a reliable service by the utility, the commission said.

“The Furie GSA has the effect of diversifying Chugach’s gas supply while retaining flexibility as to gas volumes and pricing,” the commission said.

—PETROLEUM NEWS

Natural Gas

RCA approves Furie gas supply for CEA

The Regulatory Commission of Alaska has approved Chugach Electric Association’s new gas supply agreement with Furie Operating Alaska.

The agreement, which ends on March 31, 2033, entails an interruptible supply that goes into effect immediately and a firm supply of about 1.8 billion cubic feet per year starting on April 1, 2023. The firm supply guarantees a minimum daily rate of 5 million people per day. Under the agreement, Chugach Electric has the option of increasing the firm supply by up to 1.8 billion cubic feet per year. And the utility can purchase additional firm deliveries of up to 2 million cubic feet per day, beginning in year seven of the contract.

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“The Furie GSA has the effect of diversifying Chugach’s gas supply while retaining flexibility as to gas volumes and pricing,” the commission said.

—ALAN BAILEY

GOVERNMENT

No Senate Finance HB 111 CS yet

As Petroleum News closed out this issue the Alaska Senate Finance Committee had cancelled three meetings on House Bill 111, probably indicating that work was continuing on a committee substitute for the Senate Resources CS on which the committee has taken testimony since it was introduced April 24.

Senate Resources made substantial changes to the version of the bill, crafted by House Finance, which passed the House April 11. The House version of the bill made multiple changes in the state’s oil and gas tax system, which is based on provisions in Senate Bill 21 which was passed in 2013. Members of the majority in the Senate have indicated that they are not interested in broad-based changes to the state’s oil and gas tax system.

SB 21 fixed issues in the previous system,ACES — Alaska’s Clear and Equitable Share — which were problematic at high oil prices, with the state taking such a large share of profits that companies pulled back on investments. SB 21, however, proved problematic at low oil prices, with the state’s share of profits falling off substantially. And credits built into the system to encourage investment in the state grew beyond what the state could afford at low oil prices.

Fixes to the credit issue began last year with HB 247, but legislators limited the focus of that bill to Cook Inlet, leaving the issue of North Slope credits unresolved.

Industry representatives told Senate Finance that the Senate Resources CS still represented a tax increase, and expressed concern that various aspects of the CS needed to be specified in statute, not left to be determined by regulations.

—KRISTEN NELSON

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PETROLEUM NEWS  •  WEEK OF MAY 7, 2017
The state required the sale of Terminal 1 to preserve competition in the fuel market when Tesoro sought to purchase most of Flint Hill’s fuel storage assets in Anchorage and Fairbanks. Tesoro’s acquisition of Flint Hills’ wholesale marketing and logistics assets in Anchorage and Fairbanks was announced in November 2015. The transaction was expected to close within 60 days, subject to completion of transition planning and anticipated consents and approvals.

A consent decree between the state and Tesoro last June allowed the company to go ahead with the purchase of the wholesale and logistics assets in Anchorage and Fairbanks, subject to the sale of one of its existing terminals in Anchorage. In addition to the 580,000-barrel capacity former Flint Hills Anchorage terminal it was acquiring, Tesoro also owned two storage facilities at the port, Terminal 1 with 220,000 barrels of capacity and Terminal 2 with some 660,000 barrels of capacity.

“This is an excellent opportunity for Petro Star, and gives customers in this area of the state another choice when it comes to purchasing quality fuel and receiving superior service,” Rex A. Rock Sr., ASRC president and CEO, said in a May 2 statement.

Doug Chapados, president and CEO of Petro Star, said, “Petro Star has been looking for ways to expand into the largest fuel market in the state for quite some time. Until now, we did not have storage or fuel distribution facilities in Southcentral. Terminal 1 gives us both as well as access to the Port of Anchorage for receiving barge deliveries.”

The state required Tesoro to divest some of its facilities in the June 2016 agreement which then-Attorney General Craig Richards reached with Tesoro. The consent decree followed a six-month investigation by the Alaska Department of Law, which determined that Tesoro’s acquisition of Flint Hills’ tank farm would likely limit the ability of competitors to import fuel through the port and impair competition in some fuel markets, including gasoline.

“Alaska has some of the highest fuel costs in the country. With the loss of Flint Hills, our goal in requiring the sale of Terminal 1 is to increase and encourage competition for the sale of fuel by bringing a new competitor into this market,” Alaska Attorney General Jahna Lindemuth said in a statement. “We are happy to see that Petro Star, the only other commercial refiner in Alaska, will have an opportunity to expand into Southcentral Alaska and provide new competition for fuel.”

—KRISTEN NELSON

Fluor awarded offshore compression platform FEED by BP

Fluor Corp. announced April 24 that it was selected by BP Trinidad and Tobago to perform the front-end engineering and design for the Cassia compression project off the east coast of Trinidad and Tobago. Fluor booked the undisclosed contract value into backlog in the first quarter of 2017.

Fluor’s scope includes the design of a new offshore gas compression platform, new connecting bridge and modifications to the existing Cassia hub. The platform will compress gas produced from the existing Cassia platforms. “Fluor has 50 years of experience developing some of the world’s most complex offshore projects, including several BP facilities in Trinidad and Tobago,” said Mark Fields, president of Fluor’s energy and chemicals business in the Americas. “In addition, our Stork division currently provides maintenance, modification and asset integrity services to BP’s offshore assets there. With a focus on maximizing local content, we will deliver a safe, reliable and capital efficient solution to BP.”

“As the project advances, Fluor will use its integrated solution model to support the project,” said John Harrower, executive director of offshore operations for Fluor. “Benefits of this model include an improved design through fabrication and maintenance team engagement in the design process, reduced costs through the global sourcing of major equipment and improved execution through Fluor and Stork’s extensive in-country experience and use of local resources.”

FEED activities are expected to be completed in 2017 with first gas expected in 2020.

Afgognak sets annual Youth Charity Golf Tournament

On June 29 Afgognak Native Corp. will host its second annual Afgognak Youth Charity Golf Tournament at the Anchorage Golf Course, located at 3651 O’Malley Road. Proceeds from the annual charity golf tournament allow the Native Village of Afgognak and the Native Village of Port Lions Tribes to support youth development programs, such as the Dig Afgognak camp, after-school and Aluniq week cultural activities, Aluniq language lessons, and culturally based preschool activities, all of which strengthen Aluniqemait “our community.” This year Afgognak is excited to announce that they host a special celebrity guest at the charity golf tournament, Notah Begay III.

Notah Begay III, Golf Analyst for NBC Sports and the Golf Channel, is one of the only Native American golfers to play on the PGA Tour. A member of the Navajo Nation, he attended Stanford University, where he was a three-time All-American and teammate of Tiger Woods. He was a member of Stanford’s 1994 NCAA Division I Men’s Golf Championship team. After graduation, Begay turned professional in 1995. In 1998, Begay shot a 59 in the second round of the Nike Tour Dominion Open, to join the few to ever shoot a 59 in a professional tournament.

There is still opportunity for golfers and sponsors to participate in the 2017 Afgognak Youth Charity Golf Tournament. Teams of four or individual ad-hoc players can register for the tournament.

Companies involved in Alaska and northern Canada’s oil and gas industry

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**ALTERNATIVE ENERGY**

Biomass energy helps rural communities

By ALAN BAILEY
Petroleum News

For the past couple of years a coalition of federal agencies, state agencies and non-profit organizations has been facilitating the development of biomass systems for the heating of buildings, especially in rural Alaska. The group, called the Alaska Wood Energy Development Task Group, obtains funding from the U.S. Forest Service and the state of Alaska and is linked to the Alaska Energy Authority’s biomass program.

The group provides biomass outreach and educational activities such as workshops, as well as providing technical support to the communities, Cady Lister, AEA chief economist, told the AEA board on April 27.

**High-efficiency furnace**

A biomass system consists essentially of a high-efficiency wood furnace that heats water that can be fed into building heating systems. Dan Smith, AEA assis-
tant biomass programs manager, told the board that in a biomass furnace the wood is incinerated rapidly and at a high temperature. As a consequence of the complete burning of the fuel the furnace exhaust is largely free of particulate emis-
sions and has somewhat similar particu-
late content to the exhaust from a natural gas furnace.

Feedstock for a biomass system can consist of split logs, wood pellets or wood chips.

Smith commented that the source of timber for a biomass system depends on the location of the community that is using the system. Often, based on forestry inventories developed by the Alaska Department of Natural Resource, a com-

munity can use a percentage timber har-

vest, typically within five miles of the community. One community is using wood recovered from the cutting of fire breaks in a forested region.

A biomass system provides renewable energy in the sense that it consumes timber which is actively growing but which would eventually decompose naturally if not harvested. And, although the up-front cost of a system can be high, the cost of the fuel remains within the community, while the use of the system also creates some local employment.

**Identifying communities**

Lister commented that a regional ener-

gy planning project that AEA had con-
ducted last year had helped identify com-

munities where biomass energy will work, with this community identification forming the first step in biomass imple-

mentation. Having conducted outreach to communities with biomass potential, the task group can conduct pre-feasibility studies for the communities, with AEA and Forestry Commission staff evaluating the engineering of prospective projects, analyzing project economics and prepar-

ing the beginnings of business plans.

Given the critical importance of vil-

lage commitment to a project, the next step is in an individual community is to wait for a community energy champion to emerge, to drive the project. Biomass projects require much hands-on work, with a need for involvement of many peo-

ple in the community, Lister explained.

Once a community commits to a proj-

ect, the next step is to establish funding sources and develop a business plan, and an operations and maintenance plan for the community. Funding for construction has become more challenging this year because of the demise of AEA’s Renewable Energy Fund, Lister said.

**Successful implementation**

As an example of a successful biomass implementation, Lister cited a two-boiler, cord wood system that has been imple-

mented in Thorne Bay school on Prince of Wales Island. The system has saved the school sufficient money to enable the school to build a greenhouse that uses biomass heating. That greenhouse provides fresh food for the school and for a local restaurant, while the splitting of logs for the system by parents and school students earns funds that support school activities such as sports team travel.

The Galena biomass development is another exciting project, Lister said. This has come on line recently, following development delays resulting from flood-

ing in the village. The system involves a locally operated wood chip business, the only remote chip business of its type in the world. The chips feed a biomass boiler that has replaced a steam heating sys-

tem. The new system supplies heat to 14 buildings in the village and has displaced the annual consumption of 200,000 gal-

lons of heating fuel. AEA provided a $3.2 million grant for the furnace system, with the additional loans funding the required support infrastructure.

Another successful project has involved the installation of a wood pellet boiler at Ketchikan Airport, where about 180 tons per year of locally produced wood pellets are replacing 20,000 gallons of heating fuel, Lister said.

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Enviros challenge Trump’s OCS order

A group of environmental organizations have filed suit in the federal District Court in Alaska, suing President Donald Trump and two of his officials over the president’s executive order cancelling President Barack Obama’s withdrawal of certain areas of the outer continental shelf, including the Chukchi Sea and much of the Beaufort Sea, from future oil and gas leasing. The organizations claim that the Outer Continental Shelf Lands Act does not grant the president the authority to revoke the withdrawals and that Trump’s order exceeds the president’s constitutional and statutory authority.

As part of their suit, the organizations have sued Secretary of the Interior Ryan Zinke and Secretary of Commerce Wilbur Ross. Zinke and Ross have authority over the implementation of the various federal statutes that relate to Trump’s order, including OCSLA, the Marine Mammal Protection Act and the Endangered Species Act. OCSLA does not authorize the president to re-open withdrawn areas and there is no other source of authority that permits the president to reverse or undo a land withdrawal conducted under OCSLA, the organizations have told the court. Consequently, the president’s action has exceeded his authority and is in violation of the doctrine of separation of powers, the organizations wrote.

—ALAN BAILEY

Land withdrawals

When making his withdrawals of lands within the Beaufort Sea and Chukchi Sea from future oil and gas leasing, President Obama did not withdraw a 2.8 million acre strip of territory in the existing North Slope oil and gas area of the United States. The order also addresses the designation of marine sanctuaries that might prevent offshore resource development. Trump requires the secretary of commerce to account for energy resources, including fossil fuel and renewable energy, within any area earmarked for sanctuary establishment or expansion, prior to taking action over a sanctuary designation. The order also requires a review of existing marine sanctuaries designated in the past 10 years, to take into account the opportunity cost of not developing any energy or mineral resources that lie inside the sanctuaries.

The energy and minerals produced from lands and waters under federal management are important to a vibrant economy and to our national security,” Trump wrote in his order. “Increased domestic energy production on federal lands and waters strengthens the nation’s security and reduces reliance on imported energy.”

The Alaska congressional delegation lavished praise on Trump’s order.

“After the last administration spent eight years systematically closing off access to the Arctic, this executive order paves the way for offshore resource development,” said Sen. Lisa Murkowski. “And I strongly believe that over time, this order will provide substantial benefits by putting our state on a better path to create jobs, generate new revenues, and help the trans-Alaska pipeline system, and strengthen our leadership in the Arctic.”

Reconsider regulations

The order requires a reconsideration by the Bureau of Safety and Environmental Enforcement of regulations introduced by the Obama administration for offshore oil drilling safety, including the Arctic drilling rule. Other regulations to be reconsidered include a proposed offshore air quality rule and a tightening in 2016 of the regulations relating to offshore facility decommissioning liabilities. The president also wants expedited consideration of applications for the authorization of incidental harassment to marine mammals during offshore operations, and a review of NOAA’s guidance for assessing the impacts of anthropogenic sound on marine mammals.

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continued from page 14

ARCTIC OCS

Bureau of Safety and Environmental Enforcement would require the agency to activate its formal rule making procedures, under the terms of the Administrative Procedures Act.

BSEE introduced new, more stringent offshore drilling safety regulations, including the Arctic drilling rule, in response to the Deepwater Horizon disaster in the Gulf of Mexico. While environmentalists have lauded the tightened regulations, there has been push back from the oil industry and the pro-resource development lobby on whether the regulations present too much of an impediment to offshore industrial activity. One bone of contention, for example, is the requirement, in the event of a well blowout, to be able to drill a relief well within the same open water drilling season as the drilling of the problem well, and to have a back-up drilling rig available for the relief well drilling. While this requirement adds significant cost to offshore exploratory drilling, some in industry have argued that modern well capping technology reduces the urgency of relief well drilling.

Permitting frustration

There has been frustration in the oil industry and among Alaska lawmakers around the often lengthy process for preparing federal permits for oil and gas activities. The incidental harassment authorizations that Trump wants expedited relate to the protection of marine mammals such as seals and whales under the terms of the Marine Mammal Protection Act.

Both the Beaufort Sea and the Chukchi Sea have significant oil and gas potential, with the Chukchi Sea thought likely to be a world-class oil and gas province. However, exploration and development in these remote regions would be very challenging from an economic perspective at today’s oil prices.

On May 1 Secretary of the Interior Ryan Zinke followed up on Trump’s executive order by signing a secretarial order directing the BOEM to develop a new OCS five-year lease sale plan.

“We will conduct a thorough review of the outer continental shelf for oil and gas exploration and listen to state and local stakeholders,” Zinke said. “We also will conduct a thorough review of regulations that were created with good intentions but have had harmful impacts on America’s energy security.”

Contact Alan Bailey
at abaliley@petroleumnews.com

continued from page 1

AURORA SALE

vehicle to pursue small natural gas fields in Cook Inlet overlooked by larger companies.

Aurora eventually developed five fields — Nicolai Creek, Lone Creek, Mosquawkie, Kaloa and Three Mile Creek. The company also drilled 17 wells, re-entered four existing wells and worked over another 10 wells. Today, the company operates 19 wells, including 10 producing wells. The company also owns three miles of flowlines and 21 miles of gathering lines. The company has produced 29 billion cubic feet since 2001.

In early 2002, after bringing the Nicolai Creek unit into production, the owners of Aurora sought out a partner to help fund a range of development work throughout the west side of Cook Inlet, and eventually signed a deal with the Tulsa-based Kaiser-Francis Oil Co.

Kaiser-Francis agreed to invest $25 million for acquisitions, drilling, workover and other investments. Between 2003 and 2005, Aurora produced more than 4 billion cubic feet gas per year, with production peaking in November 2003 at 20 million cubic feet per day.

“After 2005, the lower-risk, high volume opportunities based on existing data were exhausted,” leading to less productive opportunities, according to the amended plan.

As a result, in 2007, Kaiser-Francis began to market its stake in the company. But several negotiations fell through over the following few years. Aurora sold the deep rights on certain leases to Apache Alaska Corp. in 2012, but Apache never developed the leases. A pair of unsuccessful development wells in 2013 prompted Kaiser-Francis to stop investing any significant capital into Aurora and to try once to sell its share of the company. In early August 2015, Rieck Oil Inc. acquired Aurora Gas LLC outright.

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Two projects

In its amended plan, Aurora blamed its financial troubles on two recent projects.

The first involved disposing of cuttings from the two 2013 wells. According to Aurora, Kaiser-Francis was responsible for these costs, under the terms of the sales agreement.

A delay in the project nearly tripled its estimated $300,000 price to $870,350.19, although subsequent deals over the course of the closing and bankruptcy proceedings have reduced the total amount to $415,000. According to Aurora, Kaiser-Francis is withholding payment until a related matter with Cook Inlet Region Inc. is resolved.

The second project involved working over the Kaloa No. 2 well. Aurora began the $1.065 million project shortly after Rieck Oil acquired the company in mid-2015. A group of creditors filed an involuntary bankruptcy petition against Aurora in early May 2016. According to Aurora, both projects should have been eligible for state tax credits totaling some 40 percent of the outstanding invoices. The company applied for the credits in April 2016. “However, the State subsequently asked for proof of payment of some of these costs, which Aurora was unable to provide. Thus, Aurora withdrew the application before it was rejected on the grounds of non-payment, with the plan to resubmit it when a payment plan was in place,” the company wrote in its plan.

“Tax credits which are owed by the State of Alaska were not paid in 2016 and their timely payment in the future is doubtful due to state budget issues and political complications.”

Since filing for bankruptcy protection, Aurora has been operating at a loss. In addition to its financial problems, Aurora has been encountering various technical problems at its properties over the past six months, leading to declines in production. To meet its contractual obligations, the company bought gas from Furie Operating Alaska LLC.

see AURORA SALE page 16

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Engineering, drilling operations and remote camp services—together, our companies blend expertise and technological muscle in support of smooth, safe, and successful operations in the North Slope oil fields.
Keni LNG plant in Nikiski and to build an LNG project from the North Slope. 

Reiterating previous statements from ConocoPhillips, Hirschberg said that the Kenai LNG facility “might have more value to others,” adding that potential buyers had already expressed interest. Describing the shortcomings of the facility, he said that the facility had “started up in the late 1960s” and that “the area has sort of run out of gas to feed it.”

Although the Cook Inlet natural gas market faced supply shortages as recently as 2009, the arrival of many new plays in the region, and several smaller independents have publicly blamed those contracts for slowing regional exploration.

The Kenai LNG plant is also thought to require considerable upgrades to crucial components in order to remain a reliable system for the long term. Additionally, the plant was pioneering when it was commissioned, it is now much smaller than rival plants.

In the past year, ConocoPhillips sold its major Cook Inlet properties — the North Cook Inlet unit that traditionally supplied the Kenai LNG plant and the Beluga River unit.

On the Alaska LNG project, Hirschberg reiterated support for current plans.

Production, prices up

The recent production bump from the CD-5 pad at the Colville River unit and the Drill Site 2S project at the Kuparuk River unit continue to reap benefits for ConocoPhillips.

The company produced 191,000 barrels of oil equivalent per day in Alaska during the first quarter of this year, equal to overall production rates from the first quarter of 2016 and up from 187,000 barrels of oil equivalent per day during the fourth quarter of 2016.

Given the sale of its natural gas properties, the combined Alaska natural gas liquids is smaller than rival plants.

Aurora also owns 439 miles of 2-D seismic data over its acreage and other acreage nearby and 24 square miles of 3-D seismic data over Nicolai Creek and Moquawkie. The company also owns licenses to more than 3,100 miles of 2-D seismic data in the region.

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As of late April 2017, Aurora was producing between 1 million and 1.5 million cubic feet per day, which was enough to meet a 1 million cubic feet per day commitment to Tesoro.

In the most recent internal estimates, from February 2017, Aurora had 3.2 billion cubic feet in gross reserves, which could result in an additional 500,000 to 1 million cubic feet per day increase in production, pending some $850,000 in various maintenance work.

In addition to its producing properties, Aurora leases a small amount of acreage throughout the Cook Inlet region. The recent financial difficulties prevented the company from making its annual payments on the leases. The status of these leases is unresolved.

Aurora also owns 439 miles of 2-D seismic data over its acreage and other acreage nearby and 24 square miles of 3-D seismic data over Nicolai Creek and Moquawkie. The company also owns licenses to more than 3,100 miles of 2-D seismic data in the region.