



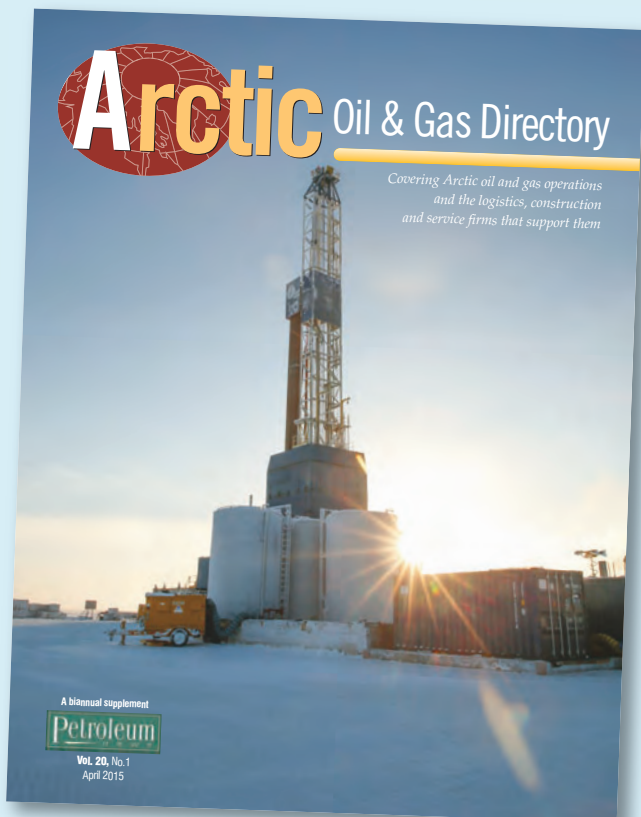
page 11 Interior gold producer Fort Knox looks to a new mine plan

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## Latest Arctic Directory released



## Trying to break BC logjam; Eyford says abandon unproductive talks

A 20-year process to achieve self-determination for 203 First Nations in British Columbia has cost more than C\$1 billion and yielded only four treaties.

The result is a virtual standstill for plans to create thousands of jobs and billions of dollars in revenues — with a large chunk up for grabs in First Nations — from LNG and crude oil export projects.

In a bid to break the deadlock, Vancouver attorney and treaty negotiator Doug Eyford was chosen two years ago as special envoy to Prime Minister Stephen Harper.

His work concluded with the release on April 1 of a 53-page report that contains some stinging criticism of governments and First Nations, leading Eyford to suggest that

see **BC LOGJAM** page 23

## Conoco cuts 2% of Alaska workers; announced projects to continue

ConocoPhillips has instituted a wage freeze and layoffs in an effort to cut internal costs between 2014 and 2016 by \$1 billion. Two-thirds of planned cuts come from reductions in external costs, including capturing cost deflation across the value chain and reducing lifting costs globally, Jeff Sheets, ConocoPhillips executive vice president, finance and CFO, said April 8 in the company's 2015 analyst and investor meeting.

The one-third cut from internal costs includes an implemented salary freeze and headcount reduction programs already under way, he said, along with optimization of business practices and alignment of general and administrative costs with activity levels.

Sheets said the company expects to have operating cost

see **CONOCO CUTS** page 24

page 3 Q&A: Senate president Kevin Meyer analyzes session developments, surprises



## EXPLORATION & PRODUCTION

# Fleet is in motion

Shell moving assets for Chukchi Sea drilling; Greenpeace boards drilling vessel

By ALAN BAILEY

Petroleum News

Shell is steadily moving ahead with the assembly of the fleet that it will need for drilling in the Chukchi Sea during this year's Arctic open water season. The two drill ships that the company plans to use in the Chukchi are heading for the port of Seattle, to load up prior to moving north. And the company has conducted tests of its Arctic containment dome, the device designed to gather oil from a leaking well, should a well loss-of-control incident occur during drilling.

Shell plans to drill in 2015, provided that the company succeeds in obtaining all necessary permits and in clearing any remaining legal obstacles,

On April 6 the Bureau of Safety and Environmental Enforcement reported that BSEE Director Brian Salerno and Interior Assistant Secretary Janice Schneider had spent two days observing trials of Shell's containment dome.

company spokeswoman Megan Baldino told Petroleum News on April 7. Some drilling assets are en-route for the United States, Baldino said, adding that some assets associated with Shell's oil spill contingency plans are already in Alaska. Baldino said that the timeline for the deployment

see **DRILLING FLEET** page 22

## EXPLORATION & PRODUCTION

# Caelus sanctions Nuna

Company has already started mining gravel at the Oooguruk unit satellite

By ERIC LIDJI

For Petroleum News

Caelus Natural Resources Alaska LLC has “fully sanctioned” the Nuna development.

The subsidiary of Caelus Energy Alaska LLC has already begun some initial construction work on the Oooguruk unit satellite, off the northwest coast of the Kuparuk River unit, Senior Vice President for Alaska Operations Pat Foley wrote in a March 11, 2015, letter to Alaska Department of Natural Resources Deputy Commissioner Marty Rutherford.

According to the letter, the Caelus Energy Alaska board of directors sanctioned the project

Just five days after the ruling, Caelus began mining at Mine Site E and hauling gravel to the development site, in the Oliktok Point region.

and committed \$76 million of its 2014 capital budget to the project in September 2014, subject to the approval of a pending request for royalty modification. The state approved that request earlier this year and reduced the royalty rate on five leases associated with the Nuna development to 5 percent. The approval contained conditions that creat-

see **NUNA SANCTIONED** page 23

## GOVERNMENT

# ANWR decision issued

President Obama asks Congress to designate ANWR coastal plain as wilderness

By ALAN BAILEY

Petroleum News

On April 3 the U.S. Fish and Wildlife Service followed up on the publication of the environmental impact statement for a new conservation plan for the Arctic National Wildlife Refuge by issuing a record of decision for the EIS, confirming among other things a recommendation to designate 12.28 million acres of ANWR as wilderness, including the coastal plain area of the refuge.

On that same day President Obama wrote to the U.S. Congress, asking Congress to legislate the wilderness designation. The president also asked Congress to place the Atigun, Hulahula, Kongakut and Marsh Fork Canning rivers in the National Wild and Scenic Rivers System.

“This area is one of the beautiful, undisturbed

Federally qualified subsistence users will continue to be able to use refuge lands for subsistence purposes, the record of decision says.

places in the world,” the president said. “It is a national treasure and should be permanently protected through legislation for future generations.”

## Highly prospective

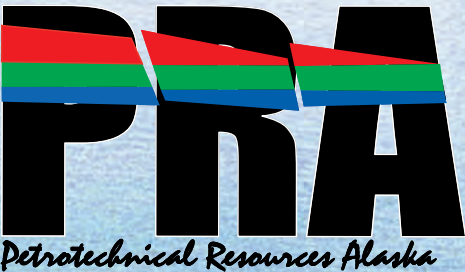
Thought to be highly prospective for oil and gas, the coastal plain area of the refuge has been a major bone of environmental contention for many years, with environmentalists being adamantly opposed to any development anywhere in the

see **ANWR DECISION** page 24



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GOVERNMENT

# Meyer analyzes session developments

Senate president, Anchorage Republican, navigating surprises from federal government, Alaska Gov. Walker and Washington Gov. Inslee

By STEVE QUINN

For Petroleum News

Senate President Kevin Meyer arrived for the current legislative session hoping the little things would fall in place to advance a liquefied natural gas project to the front end engineering and design — or FEED — phase.

While that seems to be happening, Meyer remains concerned about the credence Gov. Bill Walker is placing on a backup plan, one of several surprises to hit the Anchorage Republican this session.

In January, those espousing oil and gas exploration in the Arctic National Wildlife Refuge and offshore drilling got stunned by announcements from the Obama administration of orders to curb those efforts.

This prompted leadings members of the Legislature to visit Interior Secretary Sally Jewel during her visit to Kivalina and Kotzebue.

As Meyer and his colleagues still struggle to understand Walker's intent with a gas line project, he learned of a letter from Washington Gov. Jay Inslee, a Democrat who was critical of any Arctic exploration.

Meyer, who believed Inslee had no business "butting in," spoke to Petroleum News about all these issues facing the Legislature now and once session ends.

*Petroleum News: Where do you see the state right now with the gas line project and what had you hoped for when session started?*

Meyer: Our expectations were to try to keep the Alaska LNG project on track and schedule. I think for the most part it is on schedule. There are a few things that needed to be done that the governor has met. The right of way is one of them as well as the PILT (payment in lieu of taxes) bill. Now granted the PILT bill doesn't have much substance to it, but at least we've got it on the table for discussion. I think the Alaska LNG is on schedule and moving forward.

We would like to see a little more commitment from the governor to that project. Over the last 80 days he's given us reason to be concerned for the backup plan, the ASAP. He wants to expand that now. There was some concern — and still some — that it would almost be a competing plan. We would like to see more details on what he envisions on the backup plan. We'd like to see what that is and what that costs. Who is going to build the LNG plant? Who is going to build and pay for the gas treatment plant?

He's come out with his op-ed saying he would prefer 51 percent. Well, we know a project that size is going to be at least \$60 billion. How are you going to pay for it? Who is going to pay for it? If you are going to get a utility company like a Tokyo Gas to help pay for it, is that in the best interest of the state because they obviously are going to want to get gas as cheap as possible? Whereas our constitution says we have to maximize our return.

He created a lot of uncertainty with us. Our partners have voiced some concerned but not too much that the main line is off track, which is our main goal: keep that main line on track. But that was a concern this session and still is. That's why the speaker did his legislation, HB 132.

*Petroleum News: The public disagreements have been largely between the*

*speaker and the governor. Do you feel caught in the middle of that?*

Meyer: No. I don't. I support Alaska LNG. I think we all do. The ultimate vote on that one when we did vote on that was 52-8. Most of the Legislature does. His HB 132 just says we are committed to Alaska LNG, SB 138, until FEED, which hopefully is in about a year.

*Petroleum News: Are you concerned that there is something else in the works that could undermine SB 138 and what's already in place?*

Meyer: Yeah, I think we are. Gov. Walker has always wanted to build a pipeline via the Port Authority. If you look at the Port Authority concept, it is what he suggested he prefers. It's an independent line if not 100 percent owned by the state, a majority-owned. Now you see him putting in place folks from the Port Authority: His chief of staff (Jim Whittaker); his attorney general from his law practice (Craig Richards). If you look at the people he's putting in place and you know where he's coming from, yeah, it's a concern.

*Petroleum News: Is having Jim Whittaker, given the past between him and three lawmakers (Meyer, Chenault and Mike Hawker) hindering any progress?*

Meyer: I don't think that was the best choice for the governor as far as working with the Legislature. That is the governor's choice. We've either got to accept it or not work with Jim. We haven't had a whole lot of interaction with Jim now that he has Darwin (Peterson) as the legislative liaison who has a great reputation with the Legislature. I know there have been people who approached the governor about Jim and said we've got to work together. At least have Whittaker apologize to the speaker and the president. He hasn't done that and he doesn't have to do that. In my case, I'm going to work with whoever the



KEVIN MEYER

governor puts there. It's just that ... it's not the best working relationship.

*Petroleum News: You and the speaker tried working out a deal with HB 132. Did you think you were getting close?*

Meyer: I did. We had a letter we were all going to sign to say we agreed to these things and had a joint press release ready saying here is how we are going to go forward. I was really shocked. Then the day after he said, "this ties my hands too much. I can't agree with this. I need flexibility. I need leverage in working with the oil companies. You take that away from me when I can't market the gas or I have to come back to the Legislature and tell you what my plan is. The oil companies won't agree to anything because they know I have to go back to you each time."

Our backup plan was done through HB 4 where we were able to have a public hearing process, have deliberations, get public input. It was all open and transparent.

Our concern here is he is doing some-

thing in background that creates suspicion in our minds and it should in the public, too, but I don't know if they have connected the dots. His backup plan may be his real plan but we don't know that. We've got to hope it isn't. Again, I've heard him publically state that he is committed to Alaska LNG, so I feel good about that, but that isn't to say one little thing he disagrees with and he goes to the backup plan, which is what he wanted all along.

We just don't know. We don't have any say on that. He's got a pretty big pot of money at his disposal without having to come back to us and getting our concurrence on it. Nor does he have to come back to us and say here is the new revised backup plan and here are our new partners. So that's all worrisome. You can say \$180 million isn't going to get you very far. It's not going to build a pipeline. If you spent that much money you're probably not going to walk away from it unless it's a really bad idea.

We did walk away from \$300 million

see MEYER Q&A page 21

## Q&A



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## EXPLORATION & PRODUCTION

# Eyeing the next technical generation

*Undeterred by current oil price environment and financial struggles, industry secures rights to bitumen carbonates*

By GARY PARK

For Petroleum News

At a time when the blinds are being drawn and the shutters are going up on many oil sands projects, some producers are betting that a technological breakthrough will lead over the long term to commercial development of an untapped formation below the established bitumen formation in northern Alberta.

It's a deposit that some estimate contains more oil potential than the 170 billion barrels of reserves that have been assigned to bitumen deposits that are being extracted by a variety of means.

Ignoring the current bleak outlook for the resource, an unidentified company paid C\$21 million at an Alberta government auction in March for rights to 47,000 acres of bitumen carbonates beneath Shell Canada's 80,000 barrels per day Carmon Creek project in the Peace River area of northwestern Alberta.

The successful bid, which averaged about C\$2,238 per acre, was placed by brokers Britt Resources and Land Solutions Group. Neither they nor Shell would answer inquiries about who the bidder was.

Government geologists estimated the rights have 447 billion barrels of oil in place, of which 89 billion barrels are thought to be recoverable.

tion experienced a setback March 31 when it was granted court protection from creditors after facing a demand for payment of C\$150 million from the investment board that manages the Canadian government's pension plan.

Laricina Chief Executive Officer Glen Schmidt told the Calgary Herald that the request was a difficult, but necessary, step for his company which lacks the funds to build a commercial operation at its two demonstration projects.

He said the court order gives Laricina the "time to manage its affairs so that the interests of all stakeholders are met."

The company issued a warning in January that it was in technical default of covenants when fourth-quarter production of 1,255 bpd missed the promised target by 18 percent.

The pension plan board, which is Laricina's largest single shareholder at 15.3 percent, said it concluded there was no reason to believe it could put its debt back into good standing, repay it, or make an acceptable restructuring proposal.

The board blamed the production record on technical challenges and "operational errors" and accused management of failing to take "prudent measures" to reduce spending.

### Timing of development questioned

Calin Dragoie, vice president of geoscience at Chinook Consulting Services, told the Financial Post that despite research efforts, the industry is years away from a "breakthrough" that would open the door to commercial development of the carbonates.

As well as Shell, Laricina and Osum, Husky Energy has been experimenting with in situ upgrading in the carbonate play through a series of pilot operations.

For more than 30 years, Shell has periodically tested in situ electric heaters to extract light oil from oil shale at a research project in the Piceance basin of northwestern Colorado.

In late 2004, the company extended those tests to northwestern Alberta, more than a year before announcing it had invested about C\$500 million for a stake in

see **NEXT GENERATION** page 6

### Development methods in infancy

But methods to develop the carbonates are still in their infancy.

Unlike the oil sands, there is almost no geological pressure in the carbonate formations.

One of the best hopes of making a commercial breakthrough was Laricina Energy, which, in partnership with Osum Oilsands Corp., booked 128 million barrels of probable reserves at their 1,800 bpd Saleski Phase I pilot project in the Athabasca formation.

Laricina suspended work at the site in February, despite having completed 80 percent of the engineering, while it tried to raise C\$350 million in a difficult investment climate to complete the C\$520 million venture.

The privately held company's search for ways to access the new geological forma-

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● FINANCE & ECONOMY

# EIA: Brent averaged \$56 in March down \$2

Agency expects \$59 per barrel Brent average in 2015, \$75 per barrel in 2016, with WTI down \$7 from Brent this year, down \$5 in 2016

By KRISTEN NELSON  
Petroleum News

North Sea Brent crude oil prices averaged \$56 per month in March, down \$2 per barrel from the February average, the U.S. Energy Information Administration said April 7 in its Short-Term Energy and Summer Fuels Outlook. The agency forecasts that Brent will average \$59 per barrel this year and \$75 per barrel in 2016, both forecasts unchanged from last month's outlook, with West Texas Intermediate expected to average \$7 less than Brent this year and \$5 less than Brent in 2016.

An agreement with Iran could change that forecast.

"A lifting of sanctions against Iran should a comprehensive nuclear agreement be concluded could significantly change the forecast for oil supply, demand and prices by allowing a significantly increased volume of Iranian barrels to enter the market," EIA Administrator Adam Sieminski said in an April 7 statement. If and when those oil-related sanctions are lifted, he said, "EIA's baseline outlook for oil prices in 2016 could be reduced \$5 to \$15 per barrel from the forecast presented in EIA's current outlook."

The agency said Iran is believed to have at least 30 million barrels of crude oil in storage, and the technical capability to ramp up production by at least 700,000 barrels per day by the end of 2016. EIA noted that the pace and magnitude of Iranian volumes reaching market would depend on the terms of a final agreement.

## US production averaged 9.3 million bpd

U.S. crude oil production averaged 9.3 million bpd in March, EIA said, but is

*Given the present price forecast, U.S. crude oil production is projected to average 9.2 million bpd this year and 9.3 million bpd in 2016.*

expected to decline in June through September. Given the present price forecast, U.S. crude oil production is projected to average 9.2 million bpd this year and 9.3 million bpd in 2016.

U.S. crude oil production averaged 8.7 million bpd in 2014, and the current forecasts — 9.2 million bpd in 2015 and 9.3 million bpd in 2016 — are reductions of 0.1 million and 0.2 million bpd respectively from EIA's March forecast. The agency said the reduction reflects rig counts falling faster than it had expected, "as oil-directed rigs have declined to the lowest level in more than four years as of late March."

WTI is expected to average \$48 per barrel in the second quarter of this year, EIA said, with 2015 onshore production expected "to decline beginning in that period because of unattractive economic returns in some areas of both emerging and mature oil production regions."

The agency expects drilling activity to increase in the second half of the year based on a projected increase of WTI to an average of \$57, with companies taking "advantage of lower costs for acreage leasing, drilling and well-completion services, resulting in growing production despite the relatively low WTI price."

But EIA said the forecast "remains particularly sensitive to actual prices available at the wellhead, drilling economics that vary across regions and operators, and whether additional production from the

backlog of well completions materializes."

## Marketed natural gas up

U.S. natural gas consumption is projected to average 76.3 billion cubic feet per day this year and 75.8 bcf per day in 2016, compared with an estimated 73.5 bcf per day in 2014, EIA said.

The agency said consumption is largely driven by demand in the industrial and electric power sectors.

Marketed natural gas production is expected to increase by 3.8 bcf per day, 5 percent, this year, and by 1.5 bcf per day, 1.9 percent, in 2016, "reflecting continuing production growth in the Lower 48 states, which more than offsets the long-term declining production in the Gulf of Mexico."

The agency said that while natural gas prices have fallen dramatically in recent months, it expects that increases in drilling efficiency and growth in oil production — even though at a slower rate — will continue to support growing natural gas production. Most natural gas production growth is expected to come from the Marcellus shale, with a backlog of drilled and uncompleted wells supporting production growth as new pipelines come online in the Northeast.

Increased domestic production is expected to reduce demand for natural gas imports from Canada, while supporting exports to Mexico, EIA said. A growing

*U.S. natural gas consumption is projected to average 76.3 billion cubic feet per day this year and 75.8 bcf per day in 2016, compared with an estimated 73.5 bcf per day in 2014, EIA said.*

demand from Mexico's electric power sector and flat Mexican natural gas production are expected to produce an increase in exports to Mexico, particularly from the Eagle Ford in South Texas.

The agency said liquefied natural gas imports "have fallen over the past five years because higher prices in Europe and Asia are more attractive to LNG exporters than the relatively low prices in the United States." Gross LNG imports are forecast to average 0.2 bcf per day both this year and next, while LNG exports are projected to increase from an average of 0.04 bcf per day in 2014 to more than 0.79 bcf in 2016.

The Henry Hub natural gas spot price averaged \$2.83 per million Btu in March, down 4 cents from February, and EIA said it expects monthly average spot prices to remain less than \$3 per million Btu through May and less than \$4 per million Btu for the remainder of the year. Henry Hub is projected to average \$3.07 per million Btu this year and \$3.45 in 2016. ●

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## • NATURAL GAS

# Downturn could aid LNG

Canadian Natural Resources Minister Rickford cites opportunities in Japan, China, Europe for British Columbia gas development

By **GARY PARK**

For Petroleum News

**H**olding firm to the belief that whatever is lost on the swings is gained on the roundabouts, the Canadian government is delivering a message that the downturn sweeping across the traditional oil and gas industry could have its reward in the LNG sector.

Federal Natural Resources Minister Greg Rickford, after meeting with officials from Shell-led LNG Canada, Petronas-operated Pacific North West LNG and potential pipeline operator TransCanada, said languishing oil and gas prices and demand could solve prospects of a labor squeeze if LNG projects go ahead.

He also said Canada will continue working to establish the economic conditions that spur on multibillion-dollar investments in LNG projects.

"Everything I've heard from Japan and

China and some new opportunities in Europe" suggest that Canada and British Columbia are right to pursue LNG development, Rickford told reporters in Vancouver.

His appearance in British Columbia came amidst a steady stream of layoffs and stalled projects in the Alberta oil patch and struggles in the mining sector stemming from a drop in demand in Asia.

## No new commitments

But Rickford gave no sign of any new commitments from his government beyond the previously announced promise of a tax break for the LNG sector through an acceleration of capital cost allowances on equipment used for LNG to the 30 percent level enjoyed by manufacturers compared with 8 percent available to other resource sectors.

He said that matching suitable workers with LNG jobs is a top priority now that the slowdown in the oil sector has "created

opportunities to solve labor shortages."

The onus is on Canada to "mobilize and ensure we have the labor supply" to strengthen Canada's reputation in Asia as a stable economic and political regime that offers secure long-term supplies of natural gas as LNG feedstock.

Rickford said his discussions with Shell, Petronas and TransCanada focused on ways to move one or more projects "past the starting line."

## Gloomy Scotiabank report

However, his effort to send out positive signals coincided with a gloomy report by Scotiabank, whose vice president of commercial and commodity research, Patricia Mohr, said Canada is grappling with a "still lackluster global economy" and the deflationary impact of a strong U.S. dollar.

On other negative issues, Rickford shrugged off a declaration by seven mayors in Metropolitan Vancouver that they will boycott a National Energy Board review of Kinder Morgan's plan to expand its Trans Mountain oil sands crude pipeline to 890,000 barrels per day to open export markets in Asia.

He also said the federal government is making progress in addressing First Nations' concerns around energy projects through a recently established major-projects management office to build partnerships with aboriginal communities to benefit from natural resource development.

battleground between utility company FortisBC and the municipal council in Squamish, near Vancouver, over plans by Singapore-based Pacific Oil & Gas Group for the Woodfibre LNG project.

FortisBC has filed a petition with the British Columbia Supreme Court against the Squamish rejection of an application to study the feasibility of a C\$520 million natural gas pipeline to service Woodfibre, as part of its opposition to fossil fuel development.

The utility company said Squamish "unlawfully refused to issue a development permit," arguing there has never been a proven case of water contamination from hydraulic fracturing used to extract the gas.

Former British Columbia Premier Mike Harcourt, who is a member of the socialist New Democratic Party, has surprisingly added his weight to Woodfibre.

He said the proponent has established itself as a good steward of the environment by removing 500 truckloads of contaminated wood waste from the LNG site which was home to a pulp mill and promising to remove 3,000 creosote-coated piles from the waterfront.

Harcourt also said Woodfibre's plan to use electricity rather than natural gas to power its plant will reduce greenhouse gas emissions by 80 percent.

In addition, he noted that Woodfibre will create 600 construction jobs over two years and 100 permanent jobs and create C\$85 million in tax revenue a year. ●

Contact Gary Park through  
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## Latest test case

The latest test case for LNG in British Columbia is shaping up on an emerging

continued from page 4

## NEXT GENERATION

the Peace River rights.

The pilot yielded several thousand barrels of light oil, pointing to success from a technical standpoint in breaking down bitumen viscosity in a reservoir that ranges from 8 to 10 degrees API, resulting in oil of 30 to 49 degrees API.

But Shell, for competitive reasons, has been reluctant to discuss how close it might be to a full-scale commercial application, noting that field tests are still focused on proving the in situ upgrading technology. Among other pioneers, E-T Energy, a small research and development

venture, had success with its first field test in 2007. Rather than applying in situ upgrading, the E-T process used heaters to simply melt the bitumen so that it would flow to wells.

It drilled cheap, shallow wells targeting bitumen deposits that are too deep for surface mining and too shallow for steam injection and initially reported rates as high as 100 bpd from one well and recovery factors of 66 to 77 percent.

But, like so many junior players in the oil sands sector, E-T has gone quiet in recent years, with no updated information or news releases on its website. ●

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• GOVERNMENT

# Proposed US waters rule raises hackles

*Opponents of proposed Clean Water Act rule claim federal overreach, increased project costs and insufficient Alaska consultation*

By **ALAN BAILEY**

*Petroleum News*

**D** concerns and a lively debate continue over the scope of federal jurisdiction over water bodies in Alaska, following the March 14 publication by the Environmental Protection Agency and the U.S. Corps of Engineers of a proposed rule that attempts to clarify the definition of what is meant by the waters of the United States, the waters subject to federal regulation under the Clean Water Act.

On April 6 Sen. Dan Sullivan, R-Alaska, held a field hearing in Anchorage of the Senate Environment and Public Works Committee. Sullivan, chair of the Fisheries, Water, and Wildlife subcommittee, wanted to gather views on the proposed new rule.

## Waters of the US

The issue of federal jurisdiction over water is simple in principle but complex in practice: While most people agree that the federal government can regulate navigable waters that are capable of supporting interstate commerce, problems arise from the fact that these obvious waters of the United States can become polluted by materials discharged into other connecting waterways or wetlands. So where, exactly, do the waters of the U.S. end and local or state waters begin?

This question matters, because any activity impacting U.S. waters typically requires

federal permits, such as a dredge-and-fill permit. And federal permitting then triggers the need for a federal environmental review, potentially leading to the development of an environmental impact statement, a process that might take a couple of years to complete. All of this adds up to cost as well as time for the activity in question.

And, with a myriad of water bodies and vast areas of wetlands, the state of Alaska has much at stake.

## Lack of clarity

Previous challenges over federal jurisdiction have ended up in the U.S. Supreme Court. But the court, rather than settling the issue, failed to reach consensus, instead in 2006 issuing two differing opinions. Hence the need for greater regulatory clarity.

Under the proposed new rule, all territorial seas, navigable waters, interstate water and tributaries of these waters, would be considered to be U.S. waters, as would navigable waters impounded behind a structure such as a dam, and wetlands adjacent to these other water bodies. The federal agencies also want the ability to designate some other waters as U.S. waters,



**SEN. DAN SULLIVAN**

depending on the relationships between the various water bodies involved.

## Strong exception

Sullivan has taken strong exception to the proposed rule, claiming that the rule would greatly extend the scope of water bodies over which the federal government has jurisdiction, hence expanding the scope of the Clean Water Act without U.S. congressional approval.

"It should be stressed that the proposed water of the U.S. rule may be one of the most important, significant expansions of federal jurisdiction we have seen to date in Alaska," Sullivan said during his introductory comments in the field hearing. "The tentacles of the Clean Water Act extend far beyond simply federal lands and would impact the ability of states and private landowners to use their land."

## Scope increase

Michelle Hale, director of the Division of Water in the Alaska Department of Environmental Conservation, said that her agency believes that the proposed rule would significantly increase the number of water bodies that would come under federal jurisdiction and hence require federal permits. Hale also accused the federal agencies of failing to adequately consult with the state in the development of the rule.

"It's been our experience that the federal government thinks that they know how to make rules better than the state governments," Hale said.

Hale said that the rule does not take into account Alaska's unique features — there is no mention in the role of tundra or permafrost, for example, she said.

Tara Sweeney, executive vice president for external affairs for Arctic Slope Regional Corp., the Native regional corporation for the North Slope, expressed concern that the proposed rule would design-

nate 44.5 percent of Native land as jurisdictional wetlands — this land has been assigned to Native ownership under the terms of the Alaska Native Claims Settlement Act. The designation would limit the ability of the Native people to use their lands for their self-determination and future prosperity, Sweeney argued.

However, Sam Kunaknana, president of the tribal council for the Native Village of Nuiqsut on the North Slope, said that he supports the proposed rule as a means of preventing water pollution entering the food chain of the Arctic wildlife that underpins the Native subsistence way of life. All of the various water systems on the Slope are interconnected, he said.

## Cost implications

Representatives of Alaska resource development industries homed in on the potential cost implications of the proposed rule. Rick Rogers, executive director of the Resource Development Council for Alaska, said that, as well as grossly understating the scope of the increase in jurisdictional wetlands, EPA had grossly underestimated the cost of implementing the rule. The federal government already has jurisdiction over 61 percent of Alaska land: The proposed rule, by determining wetlands to be jurisdictional, would extend that federal jurisdiction to private, Alaska Native corporation, state and municipal lands, Rogers said.

Kara Moriarty, president and CEO of the Alaska Oil and Gas Association, said that the rule will give EPA regulatory authority over virtually any water feature in Alaska with any tentative or hypothetical connection to traditional navigable waters.

"I cannot emphasize enough that federal rules of the nature proposed by EPA in this instance have a huge and disproportional impact on the state of Alaska."

see **WATERS RULE** page 10

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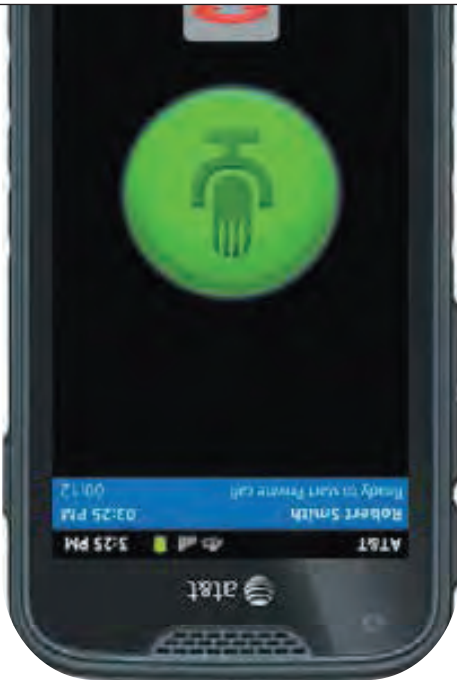
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## ● EXPLORATION &amp; PRODUCTION

# ConocoPhillips planning 15 CD-5 wells

*Colville River unit activities will focus largely on bringing Alpine West into production; some Kuparuk work planned*

By ERIC LIDJI

For Petroleum News

As expected, Colville River unit activities this year will be primarily devoted to CD-5.

Through the first quarter of 2016, operator ConocoPhillips Alaska Inc. plans to drill at least 15 horizontal wells from the still-under-construction CD-5 pad, according to an annual status update for the unit filed with state officials in mid-March. The program will begin with 13 wells into the Alpine A sand — six production wells (CD5-03, CD5-04, CD5-05, CD5-09, CD5-10 and CD5-11) and seven injection wells (CD5-01, CD5-02, CD5-06, CD5-07, CD5-08, CD5-12 and CD5-13). The program will also include a campaign for a Nanuq Kuparuk sand — the CD5-314 horizontal producer, CD5-315 horizontal injector and, depending on well results and rig availability, the CD5-SUN3.

Through a predecessor, ConocoPhillips brought the Colville River unit into production from the Alpine field in 2000. The company completed initial development from the CD-1 and CD-2 pads by November 2005, at

which point activities shifted to developing peripheral targets and the three existing Alpine satellites: Qannik, Fiord and Nanuq.

Alpine West will become the fourth satellite once ConocoPhillips finishes building the CD-5 pad this year and begins its drilling program. The project includes a gravel pad and a road and pipeline corridor connecting to the existing Alpine field infrastructure.

As with the main Alpine field, CD-5 activities will primarily target the Alpine sands but will include the Kuparuk sands. Through separate operations in 2008 and 2014, ConocoPhillips converted three CD-1 Alpine wells to produce from the Kuparuk. The Nanuq Kuparuk participating area began production in November 2006 and performance, at 1,000 barrels per day, “continues to exceed expectations,” according to the company.

This year, the company also plans to drill one well from the CD-4 pad. CD4-93 would be a production well targeting the Alpine A sand in the southern periphery of the field.

ConocoPhillips has been developing the Alpine sands using horizontal wells and alternating water and gas injec-

tions. The company performed three fracture stimulations in 2014 with “an appreciable production rate increase” and has “tentatively” planned two fracture stimulations at Alpine this year and six more at the CD-5 A sand in early 2016. The company might also perform one fracture stimulation on a Fiord satellite well this year.

ConocoPhillips said it has no specific exploration activities planned for the Colville River unit this year but was “evaluating exploration opportunities to conduct in 2016.”

## Production figures

The Colville River unit has four oil pools and six participating areas.

The Alpine pool includes the Alpine participating area and the Nanuq Kuparuk participating area. As of the start of 2015, ConocoPhillips had drilled 130 wells into the Alpine and nine wells into the Nanuq Kuparuk. The Alpine produced 33,800 barrels per day in 2014 and 389 million barrels cumulative through the end of 2014. The

see **CD-5 WELLS** page 17

continued from page 8

## WATERS RULE

tionate impact on the Alaska public, private and Native interests,” Moriarty said. “Yet EPA has given no attention and attributed no significance of which I’m aware to the unique and profound significance of changes in the Clean Water Act jurisdiction proposed here in Alaska.”

Moriarty commented that it can take up to two years to obtain a Corps of Engineers wetlands permit and that the cost of applying for and obtaining a permit for discharges into U.S. water can amount to \$300,000.

## Trans-Alaska pipeline

Rod Hanson, vice president for system integrity, engineering and projects for

Alyeska Pipeline Service Co., operator of the trans-Alaska oil pipeline, expressed concern that the proposed rule would increase the cost of operating the pipeline at a time when the pipeline is already facing significant operational challenges. For example, under the rule, water removed from construction project sites, as well as drainage from precipitation, could become subject to federal jurisdiction and thus require federal permits, he said.

Lorali Simon, vice president of external affairs for Usibelli Coal Mine, expressed concern about project delays and costs, should the water impoundments, ditches, ponds and other structures common in mining operations become subject to federal permitting requirements. Simon also commented on possible increased requirements for what is called “compensatory mitigation,” the mandated restoration of wetlands in compensation for wetlands impacted by industrial operations.

“If the proposed expansion of jurisdictional water becomes final, it will be nearly impossible in Alaska to meet the compensatory mitigation requirements,” Simon said.

Kathie Wasserman, executive director of the Alaska Municipal League, said that a variety of items of municipal infrastructure could be impacted by the new rule, including roadside ditches and stormwater systems.

Brian Litmans, senior staff attorney for environmental law firm Trustees for Alaska, argued that, by clarifying the definition of U.S. waters, the proposed rule would actually narrow the scope of waterways that fall under federal jurisdiction. Following lack of clarity from Supreme Court decisions, the regulating agencies have taken an expansive view of that definition, with the 9th Circuit Court of Appeals, the court that handles Alaska regulatory appeals, tending to support that more expansive approach, he said.

Mark Richards, chairman of the Alaska chapter of Backcountry Hunters and Anglers, also said that, by clarifying the designation of U.S. water, the proposed rule would reduce the extent of federal jurisdiction. Richards also commented that the cost of the regulation forms part of the cost of ensuring clean water and a healthy habitat for fish and game.

Tim Troll, executive director of Bristol Bay Heritage Land Trust, expressed support for the proposed rule, saying that a survey of water bodies that his organization had conducted in the Nushagak River watershed had demonstrated that virtually all of the water bodies were interconnected, thus indicating that environmental abuse in the headwaters would impact everything downstream. ●

Contact Alan Bailey  
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## NEWS NUGGETS

Compiled by Shane Lasley

### Fish committee moves Bristol Bay bill

The Alaska House Fisheries Committee April 7 passed Bristol Bay Fisheries Act (HB 119). The bill, sponsored by Rep. Andy Josephson, D-Anchorage, would require commissioners of the Natural Resources, Environmental Conservation and Fish and Game departments to determine that it has been proven beyond any reasonable doubt that any large-scale mine permitted for the Bristol Bay region would not constitute a danger to the fisheries. This would add to a ballot measure approved by Alaska voters in 2014 that requires the Alaska Legislature to approve any large-scale metallic sulfide mine in the Bristol Bay Fisheries Reserve. "If a project is sound enough to successfully go through the permitting process, garner legislative approval, and be signed off on by the commissioners of DNR, DEC, and Fish and Game, then it's a good project. If it's not, then it's not something that should be allowed to go forward," Josephson added. HB 119 has been referred to the House Resources and Finance committees for additional consideration.

### Higher grades, more gold at Kensington

Coeur Mining Inc. April 6 reported the Kensington Mine in Southeast produced 33,909 ounces of gold during the first quarter of 2015, a 33 percent increase over the 25,428 oz. recovered during the same period last year. This increase is due to higher grade ore, which more than offset lower mill throughput. Head grades for the first quarter averaged 0.24 oz per ton, up roughly 41 percent from 0.17 oz/t for the first three months of 2014. Coeur anticipates releasing a new mine plan later this month that is expected to reflect higher-grade, higher-margin production over the life of the mine at Kensington. Together, Coeur's six mines produced 3.8 million ounces of silver and 69,734 ounces of gold, or 8.0 million silver-equivalent ounces during the first quarter of 2015.

### Goldrich completes modest financing

Goldrich Mining Co. April 2 reported the completion of a US\$250,000 non-brokered private placement of 5 million units at a price of US5 cents each. Each unit consists of one

see NEWS NUGGETS page 14

## PRODUCTION

# Fort Knox's new plan

Report: Mine begins winding down in 2017, near prospects may extend life

By SHANE LASLEY

Mining News

For nearly two decades, the Fort Knox Mine in Interior Alaska has been a steady low-cost gold producer for owner, Kinross Gold Corp., and an economic driver for the nearby city of Fairbanks. A new technical report, however, outlines a mine plan that begins winding down operations in 2017. It is an important reminder that this Interior Alaska mine has an expiration date.

Including the 387,285 ounces recovered in 2014, Fort Knox has produced 6.35 million oz of gold since the mine went into operation in 1996. Based on the reserve estimates and production schedule included in the report, the Interior Alaska operation is on pace to top 8 million oz in 2020.

According to the March 2015 technical report for Fort Knox, the mine is expected to churn out an average of 387,000 oz per year through 2017 before gold production drops off due to the phasing out of its mill. Once the mine has crushed its final ore for the mill, the operation is anticipated to continue recovering gold from the Walter Creek heap leach facility for nearly a decade, depending on gold prices versus operating costs as Fort Knox winds down.

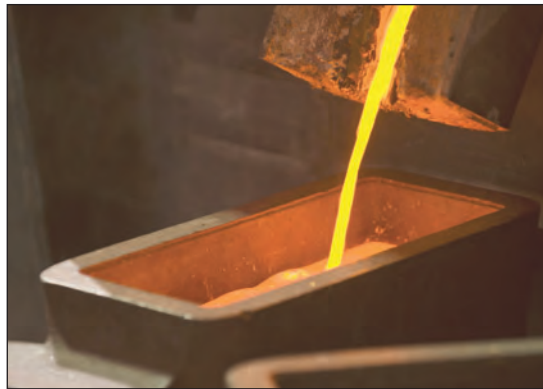
The pending date to shut down the mine, which serves as a cornerstone of Kinross' portfolio, however, is not set in stone.

### Current plan

At the end of 2014, Fort Knox had 263.8 million metric tons of proven and probable reserves, averaging 0.46 grams per metric ton (2.4 million oz) gold. These reserves, calculated at a US\$1,200 per ounce gold price, form the basis for the mine plan outlined



ANNA ATCHISON



KINROSS GOLD CORP.

Kinross Gold Corp.'s Fort Knox Mine in Interior Alaska is on pace to top 8 million ounces of gold production in 2020.

in the technical report.

These reserves are being mined during the phase-8 expansion of the open-pit at Fort Knox.

"In 2015, we plan to initiate stripping of the phase-8 pushback, which is forecast to extend mining through 2018 and beyond," Kinross COO Warwick Morley-Jepson told investors in February.

Fort Knox spokeswoman Anna Atchison said phase-8 ore will begin to produce gold in the latter half of this year.

According to the latest mine plan, some 40.3 million metric tons of the higher grade reserves will be processed through the mill during the next three years. This would mark the first phase of a winding down of more than two decades of gold production at Fort Knox.

Though ore with gold grades sufficient to efficiently feed the mill are slated to run out sometime in 2017, lower grade reserves are scheduled to continue to be stacked on the Walter Creek heap leach pad into 2019.

The ability to economically recover gold from lower grade ore by processing it on the heap leach pad has been a vital component of both the phase-7 and phase-8 expansions at Fort Knox.

Since its start-up in 2009, the heap leach pad has

see NEW MINE PLAN page 14

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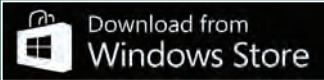
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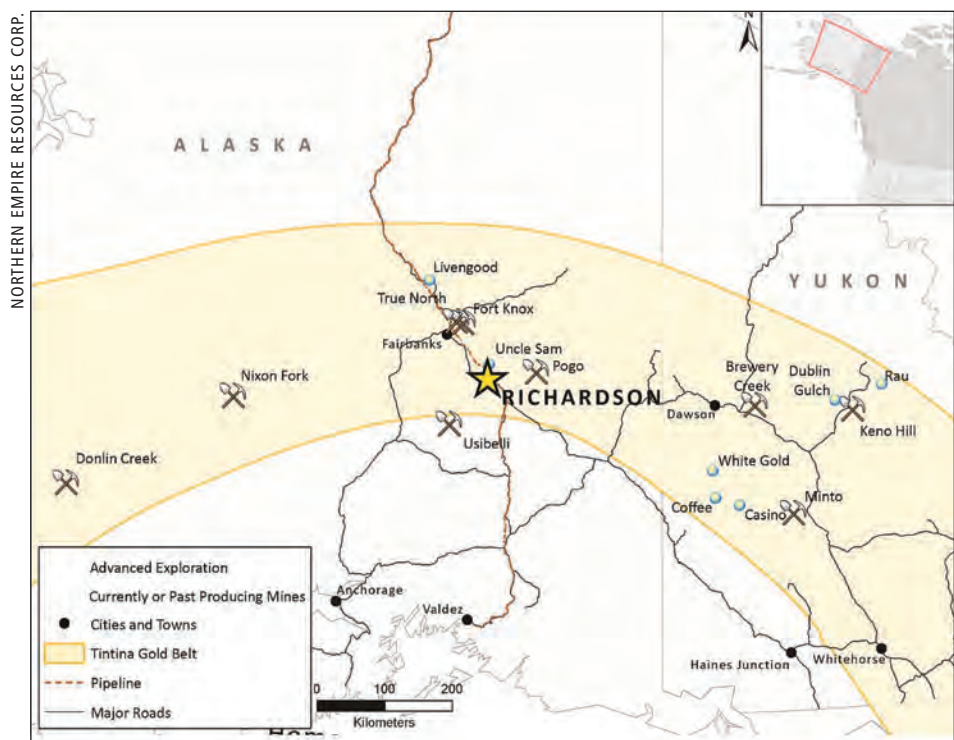


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• EXPLORATION

# Northern Empire lays claim to Richardson

*Led by explorers with big finds in Yukon's White Gold District, prospect generator targets Tintina Gold Belt property in Alaska*

By SHANE LASLEY  
Mining News

Northern Empire Resources Corp. has laid claim to Richardson, a 52,000-acre gold property in Alaska's Interior and has formed an alliance to begin exploring a segment of this vast parcel.

Northern Empire is a prospect generator with early-stage gold properties in Alaska and Nunavut and a silver property in Mexico. The company was formed as part of a restructuring of Prosperity Goldfields Corp., a Nunavut-focused exploration company headed by Adrian Fleming.

As part of a re-organization completed late in 2014, Prosperity cut a deal to acquire Richardson and a gold properties in Nunavut. The junior also consolidated its shares, completed a C\$1 million financing and changed its name to Northern Empire.

Among the renamed company's first moves was cutting a deal with Sonoro Metals Corp. on Hilltop, a prospect at the western end of the Richardson property.

Northern Empire Chairman John Robins said, "The Hilltop Gold project is a very compelling gold project located in the Tintina Gold Belt, one of North America's most prolific gold regions. With the signing of this agreement, Northern Empire is executing on its business strategy to identify high-quality projects and mitigate its risk profile through the joint venture model."

## Big gold footprint

"Big gold footprint, superior location" is how Northern Empire describes its Richardson Gold project in Interior Alaska.

Situated just north of the paved Richardson Highway in the heart of the Tintina Gold Belt, the expansive project fits this description. A network of secondary roads stretching into the property adds to accessibility, a feature that should drive down exploration costs.

Richardson is prospective for intrusive-related gold deposits such as those mined at its gold-producing neighbors, Sumitomo Metal Mining's Pogo gold mine some 45 miles to the east and Kinross Gold's Fort Knox Mine roughly 85 miles to the northwest.

Roughly 118,640 ounces of placer gold

and 2,357 oz of lode gold have been mined in the Richardson District since 1905.

The lode gold was recovered from the Democrat prospect at the southern end of the Richardson property early in the 20th Century. Though a mill was set up at Democrat in 1921, very little gold is believed to have been recovered during this early period. All of the gold attributed to the lode discovery was recovered from bulk sample programs conducted by Tri-Valley, a former explorer of the Richardson property in 1989 and 1998.

Pouring over records of past exploration on the property, Northern Empire's geological team has identified a number of distinct gold targets, including: Hilltop; Shamrock and the Richardson Lineament. The company says each of these prospects have a large footprint and "offer multimillion-ounce discovery potential within a 'drive-to' proven Alaskan gold province."

## The Hilltop option

Hilltop, which was optioned to Sonoro Metals in March, is the westernmost of these targets. Originally a separate 8,000-acre block lying to the west of the remaining Richardson claims, Hilltop was expanded to 31,720 acres through the staking of state mining claims.

"We have effectively quadrupled the size of our land position because of an opportunity identified by our technical team," said Robins. "Hilltop now covers a significant geophysical magnetic and resistivity anomaly generated by a State of Alaska Division of Geological and Geophysical Surveys airborne survey completed in 1994 and also consolidates claims covering prospective structural extensions."

Hilltop now extends to the western border of Northern Empire's 20,000-acre Richardson property.

To exercise its option and earn a 60 percent interest in Hilltop, Sonoro must invest C\$3 million into exploring the gold prospect and issue 1 million of its shares to Northern Empire by the end of 2019. Northern Empire will be the operator of the project during the earn-in period.

Historic sampling of Hilltop has turned up rock samples ranging from 0.1-55.5

see **NORTHERN EMPIRE** page 14

## NORTHERN NEIGHBORS

Compiled by Shane Lasley



### Junior borrows funds to build Gahcho Kué

Mountain Province Diamonds Inc. April 7 reported closing a US\$370 million term loan facility, which finalizes the company's anticipated funding requirements for the construction and commissioning of the Gahcho Kué diamond mine in Northwest Territories. Gahcho Kué, a joint venture between De Beers Canada (51 percent) and Mountain Province Diamonds (49 percent), is anticipated to produce 53.4 million carats of diamonds over a 12-year mine-life, according to an updated feasibility study released in 2014. Mountain Province reports that all deliveries of equipment and supplies planned for the 2015 ice road were completed at the end of March, clearing the way for completion of the mine's major construction activities. First production at Gahcho Kué is expected in the second half of 2016.

### Seabridge raises C\$16.73M for KSM

Seabridge Gold Inc. April 7 reported completion of a C\$16.73 million bought-deal financing. A total of 1.61 million flow-through common shares were sold at a price of C\$10.17 per share. Seabridge will use the proceeds from this financing to fund its 2015 exploration program at the KSM copper-gold project in northwestern British Columbia. "We expect this year's program to once again generate additional gold resources which more than offset the share dilution involved. Growing gold ownership per share continues to be a key objective for Seabridge," said Seabridge Chairman and CEO Rudi Fronk.

### Imperial Metals chalks a loss for 2014

Imperial Metals Corp. March 31 reported a net loss of C\$37.3 million (C50 cents per share) for the year ended Dec. 31, 2014, compared with net income of \$41 million (C55 cents per share) in 2013. This C\$68.3 million swing is due to lower metal production and \$67.4 million in remediation costs related to failure of the tailings dam Aug. 4 at the Mount Polley Mine in central British Columbia. Since the incident, the company's efforts at Mount Polley have been focused largely on rehabilitation and restoration of the breach and surrounding affected areas. As part of the rehabilitation of lower Hazeltine Creek, two sediment ponds were commissioned in the fourth quarter, resulting in a significant reduction in the turbidity of the water entering into Quesnel Lake. Rehabilitation and restoration work is now focusing on the upper reaches of Hazeltine Creek, and its outlet from Polley Lake. The company said repairs to the tailings dam aimed at providing sufficient storage of anticipated spring runoff at the mine are nearly complete. Mount Polley's staff is working with the province and local First Nation communities to develop a plan to re-open the mine. In the restart plan, mining would begin in the Cariboo pit with tailings deposited into the Springer pit. Production in 2015 is dependent upon receiving regulatory permission to restart operations. Imperial Metals' Red Chris gold-copper mine in northwestern B.C. is operating and has shipped its first concentrate to the Port of Stewart. Plant commissioning is ongoing, and operating crews are focused on achieving continuous operations and producing acceptable concentrate grades. As progress is made in these areas, emphasis will move to achieving design metal recoveries and throughput. Red Chris and the Tahltan community leaders are in the final stages of completing an impact and benefits agreement.

### Pretium, Nisga'a ink Brucejack treaty

Pretium Resources Inc. and the Nisga'a Nation April 2 said they have entered a cooperation and benefits agreement related to Pretium's Brucejack gold project in northwestern British Columbia. Under the terms of the agreement, the Nisga'a

see **NORTHERN NEIGHBORS** page 14



North of 60 Mining News is a weekly supplement of the weekly newspaper, Petroleum News.

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Several of the individuals  
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## NEW MINE PLAN

accounted for 601,855 oz of gold produced at Fort Knox; and the facility is anticipated to contribute roughly another 158,000 oz this year.

"From an economic standpoint, it is a very valuable technology to have," Atchison said.

According to the production schedule outlined in the report, the heap leach pad itself would produce roughly 172,000 oz of gold in 2018; climb to 232,000 oz the following year and then taper off as less gold becomes available for the leachate to rinse from the pit-run ore stacked on the pad.

Kinross said it will continue recovering gold through ongoing heap-leach processing as long as the oz recovered covers the cost of operating the pad. It is currently estimated that this balance would be met until about 2027, marking the final phase of operations at Fort Knox.

### Golden prospects

While Fort Knox is no doubt aging, there is still potential to add a few years to the life of this Interior Alaska mine.

"We are currently evaluating whether or not we extend the mill beyond 2017 and are considering several economic scenarios," Atchison told Mining News.

Above and beyond the mineral reserves that support the current mine plan, the area in and immediately surrounding



KINROSS GOLD CORP.

**At the end of 2014, Fort Knox had 263.8 million metric tons of proven and probable reserves averaging 0.46 grams per metric ton, enough gold-rich ore to feed the mill at the mine through 2017 and stack onto its heap leach pad into 2019.**

the open-pit at Fort Knox has 75.9 million metric tons of measured and indicated resources, averaging 0.37 g/t (912,000 oz) gold.

At a roughly 20 percent lower grade than the current reserves, much of this material, if brought into the mine plan, would likely be stacked on the heap-leach pad.

The Gil gold property, located about five miles east of Fort Knox, is another source of potential ore to extend the life of mine.

Gil has been defined by 73,876 meters of drilling in 738 holes, including 11,665 meters of drilling completed by Kinross after buying full ownership of the property in

2011.

Based on this exploration work, Gil has 29.5 million metric tons of measured and indicated resources averaging 0.56 g/t (532,700 oz) gold.

Both the Fort Knox and Gil resources are calculated at a US\$1,400 per ounce gold price.

Kinross did not complete any drilling at the neighboring Gil property in 2014. The company, however, is resuming both meteorological data collection and exploration at Gil this year.

Atchison said 2015 exploration plans for Gil include some drilling.

Gilmore, an area immediately west of the phase-8 expansion, is another prospect that could add to Fort Knox's mine life.

In 2014, the U.S. Bureau of Land Management authorized Kinross to conduct mineral assessment work on federal lands adjacent to the open-pit at Fort Knox that were previously withdrawn for use by the National Oceanic and Atmospheric Administration.

Fairbanks Gold Mining's proposed work on this adjacent property includes soil sampling, geologic mapping, and drilling. This activity would occur on land near the western boundary of the Fort Knox mine.

While Gil, Gilmore and other mineral resources at Fort Knox have the potential to extend the gold mine beyond phase-8, Atchison cautions that it is too early to know the economic viability of bringing these deposits into the mine plan. ●

continued from page 13

## NORTHERN EMPIRE

grams per metric ton gold and geochemistry reminiscent of intrusive-related deposits in the Tintina Gold Belt such as Pogo and Fort Knox.

### Rise of Northern Empire

Northern Empire Chairman Robins

believes that the recent and ongoing tough market for mineral explorers is the perfect time to pick up quality prospects at rock bottom prices.

"Northern Empire's mandate will be the identification and low-cost acquisition of high-value assets," he said in announcing company's formation in November.

In addition to Richardson, the project generator's beginning portfolio includes

three gold properties in Nunavut - Kiyuk Lake, Noomut River and Eric Lake.

Kiyuk Lake, a gold property that was a part of Prosperity's portfolio prior to the re-organization, is located in southern Nunavut.

A 14-hole drill program completed by Prosperity in 2011 discovered strong gold intersections at three separate locations.

Highlights from this drilling include: 32.1 meters grading 2.41 g/t gold at the Cobalt discovery; 63.6 meters averaging 2.8 g/t gold at the Gold point discovery; and 52.4 meters of 3.3 g/t gold at the Rusty discovery.

The mineralization at Rusty, which was hit at five meters below surface, was the primary target of a 12-hole program completed in 2012 expanded the zone, including a 61.5-meter intercept averaging 3.3 g/t gold.

A follow-up program in the spring of 2013 added to the tantalizing evidence of a high quality, near surface gold zone with one hole returning 35.9 meters of 4.95 g/t gold from a depth of 134 meters and another hole tapping 24 meters of 3.4 g/t gold from 34 meters.

The Eric Lake and Noomut River gold

properties also are found in southern Nunavut roughly 300 kilometers (190 miles) northeast of Kiyuk Lake. Historic drilling has intersected significant gold on both properties, including: 29.62 g/t gold over 3.2 meters at Eric; and three meters of 18.3 g/t gold at Noomut.

Northern Empire management has a history of finding and expanding large gold deposits along the Tintina Gold Belt.

"Our team has a solid track record in project generation and wealth creation, thus we believe Northern Empire is very well-positioned to capitalize and reward our shareholders by investing in the sector now," said Robins.

Fleming, who is now the CEO and exploration vice president of Northern Empire, is familiar with seeking gold-rich deposits in the Tintina Belt. Prior to forming Prosperity Goldfields, Fleming was president of Underworld Resources, the company credited with the 2008 discovery of the Golden Saddle deposit at its White Gold Project in the Yukon and sparking the subsequent exploration rush to the region.

Kinross bought out Underworld in 2010 for a cash and stock deal worth C\$139 million.

Robins also knows his way around Yukon's White Gold District. Kaminak Gold Corp., a company Robins also chairs, is currently advancing a feasibility study for the 4.15-million-ounce Coffee gold project.

He also serves as director of Grayd Resources Corp., an exploration company bought by Agnico Eagle Mines Ltd. for C\$275 million in 2011. The La India gold project in Mexico was the primary reason for this purchase. Grayd, which now operates as a subsidiary of Agnico, also holds Delta, a precious metals-enriched volcanogenic massive sulfide project about 110 miles southeast of Richardson. ●

continued from page 13

## NORTHERN NEIGHBORS

Nation will provide ongoing support for the development and operation of Brucejack as a safe, environmentally sound mine with participation in its economic benefits. For its part, Pretium will honor commitments to the Nisga'a Nation regarding jobs and contracting opportunities at Brucejack; education and training; and financial payments. "Nisga'a Nation strives for sustainable prosperity and self-reliance and the benefits from the Brucejack project will

make an important contribution toward our improved quality of life," explained Nisga'a Nation President H. Mitchell Stevens. Pretium hopes to begin construction at Brucejack this summer and commercial production at the high-grade underground gold mine is targeted for 2017. Based on the results of a feasibility study completed in 2014, Brucejack is expected to produce an average of 404,000 ounces of gold a year over an 18-year mine life. The Nisga'a Nation has rights and interests in the Nass area of northwestern B.C. where portions of Brucejack are located. ●



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## NEWS NUGGETS

Goldrich common share and one full-share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the company for five years at US6 cents per share. The warrants are subject to a right of accelerated expiry when the closing price of Goldrich's commons shares has exceeded C22 cents per share for 20 consecutive trading days. Proceeds will be used for general working capital purposes. ●





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## ENVIRONMENT & SAFETY

### Study points to methane from Arctic lakes

A research study published in March in *Geobiology* has shed new light on the sources of methane emitted from thermokarst lakes on Alaska's North Slope. A thermokarst lake forms in a surface depression where meltwater from previously frozen ground accumulates. Under scenarios of increasing global temperatures, microbes in lake sediments generate methane gas, the research found.

Methane is a potent greenhouse gas that can make a significant contribution to global warming.

Over a period of four years the researchers collected sediment cores from two lakes near Barrow, at the northwestern extremity of the North Slope — a large amount of organic matter in the thaw layer between the lake water and the underlying permafrost serves as a significant carbon source for methane generation, the researchers found.

Using simulated climate scenarios in a laboratory in Reno, Nevada, the researchers investigated the potential for the increased biological generation of methane from sediment samples and assessed the impacts of sediment geochemistry and the temperature on methane production.

"In scenarios of warming climate our measurements indicate that biological methane production may play a larger role in total methane emissions in the future, which could have a significant impact on our climate," said Alison Murray, a principal investigator in the study.

This methane comes in addition to thermally generated methane released from methane deposits deep underground.

The study marks an important step in recognizing that different methane sources in close proximity may respond differently in the changing Arctic ecosystems, Murray said.

—ALAN BAILEY

## PIPELINES & DOWNSTREAM

# APLC applies for lateral line from CINGSA

*Regulatory Commission of Alaska asked for certificate amendment, approval of 4-mile, 16-inch line, expansion of service area*

By KRISTEN NELSON

*Petroleum News*

Alaska Pipeline Co. has applied to the Regulatory Commission of Alaska for an amendment of its certificate of public convenience and necessity for construction of a 4.16-mile, 16-inch diameter pipeline to connect the Cook Inlet Natural Gas Storage Alaska facility to an existing APC pipeline near mile 18.2 of Kalifornsky Beach Road.

APC is a wholly owned subsidiary of Semco Energy, a wholly owned subsidiary of Semco Holding Corp., which is an indirect wholly owned subsidiary of AltaGas Ltd. APC's affiliate Enstar Natural Gas Co. is a division of Semco

Energy Inc., which has an indirect 65 percent ownership in CINGSA.

APC said CINGSA is currently interconnected solely with Kenai Beluga Pipeline LLC's Kenai Nikiski Pipeline segment and that the proposed lateral would bypass the KNPL segment of Hilcorp's KBPL pipeline, directly connecting APC's Kenai to Anchorage pipeline to CINGSA.

### Pressure difference

APC said all of CINGSA's customers' gas being injected or withdrawn from the storage facility must flow through the KNPL segment, whose operating pressures are limited by tariff to between 600 and 750 pounds per square inch gauge.

Gas withdrawn from CINGSA is at higher pressures and the pressure must be mechanically reduced to enter the KNPL segment and mechanically increased, by compression, to enter the APC system, which APC told RCA is both "physically and economically inefficient."

Once the lateral is constructed, APC said, "CINGSA gas can enter the APC system at pressures as high as 1,050 psig, or about 300 psig more than KNPL's current operating pressure," increasing the maximum deliverability of gas to Anchorage by some 30 million cubic feet per day, 12.5 percent, while reducing compression requirements.

Some 3,900 horsepower of additional compression, plus redundancy, would be required to achieve the same increase in deliverability without the lateral, at a cost of \$15-\$20 million.

APC said construction of the lateral avoids the cost of additional compression and increases APC's Kenai to Anchorage throughput capacity from some 235 million cubic feet per day to 265 million cubic feet per day.

### Reliability issue

APC said construction of the lateral would also increase the number of pipeline connections to CINGSA.

Most of the gas bound for injection in CINGSA, which stores gas for use when demand increases in colder weather, comes from the KBPL system "and does not incur an additional transportation charge once it enters the KNPL segment," APL said. "CINGSA customers are likely to continue to utilize the KNPL segment to transport gas for injection into storage, since gas being transported on the KNPL segment does not incur an additional tariff charge from KBPL."

The lateral would be used primarily for withdrawal, but would also be used as a second connection to CINGSA for injection during emergencies or maintenance situations.


APL said CINGSA represents 40 percent of gas deliverability to major Cook Inlet customers during winter months, so "any failure on the KNPL segment could be catastrophic without a secondary means of withdrawing gas from CINGSA."

Since CINGSA gas must be decompressed before it is injected into the KNPL segment and then compressed to



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GOVERNMENT

# Refined fuel surcharge passes House 21-19

By KRISTEN NELSON

Petroleum News

A noisy floor fight in the Alaska House preceded the April 8 passage, by a 21-19 vote, of a bill to provide funding for the Department of Environmental Conservation's Division of Spill Prevention and Response through a 1 cent per gallon surcharge on refined fuels. SPAR has been funded by monies from a 5 cent per barrel surcharge on oil produced, 4 cents of which goes to the prevention account, but that source of funding is no longer adequate due to reduced oil production.

Efforts in the past to increase the surcharge on crude oil production have not been successful, with the industry arguing that the majority of the spills to which the state responds are refined oil, not crude oil, spills.

Rep. Cathy Munoz, R-Juneau, sponsor of House Bill 158, said a shortfall in SPAR funding has been identified in the budget subcommittee for DEC, which she chairs, for three years. She said she had introduced legislation in the past to raise the 5 cent per barrel surcharge on crude oil, but those efforts failed.

### Fuel oil issue

Rep. Tammie Wilson, R-North Pole, introduced an amendment to add "fuel used to heat private or commercial buildings or facilities" to the exceptions in the bill, an amendment which failed by an 18-22 margin.

Wilson argued that fuel oil costs are already high in the Interior and in rural Alaska, but said it isn't just about the money. She said spills were not her fault, and said DEC was taking the easy way out and needed to go after those who are responsible for the spills.

Rep. Scott Kawasaki, D-Fairbanks, introduced an amendment to add a 3 cent surcharge to the existing 5 cent surcharge on crude oil, arguing that crude oil spills are among the most expensive spills to clean up and therefore the crude oil industry should pay. That amendment was defeated 13-27.

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### CD-5 WELLS

Nanuq Kuparuk produced 500 bpd in 2014 and 25.5 million barrels cumulative through 2014.

The Fiord pool includes the Fiord Kuparuk participating area and the Fiord Nechelik participating area. As of the start of 2015, ConocoPhillips had drilled five wells into the Fiord Kuparuk and 23 wells into the Fiord Nechelik. The Fiord Kuparuk produced 1,400 bpd in 2014 and 12.6 million barrels cumulatively through 2014. The Fiord Nechelik produced 12,100 bpd in 2014 and 46.1 million barrels cumulatively through 2014.

The Nanuq pool is the Nanuq participating area. As of the start of 2015, ConocoPhillips had drilled nine wells into the Nanuq. The Nanuq produced 1,600 bpd in 2014 and 2.6 million cumulative barrels through 2014. The Qannik pool is the Qannik participating area. As of the start of 2015, ConocoPhillips had drilled nine wells into the Qannik. The Qannik produced 1,700 bpd in 2014 and 4.8 million cumulative barrels through 2014. ●

Contact Eric Lidji  
at ericlidji@mac.com

### Majority of spills

In discussing the bill, Munoz said 1,500 of some 2,000 spills last year of varying sizes were due to refined products, not crude oil. Many activities are not regulated, she said, and in some cases the responsible party is unknown, but SPAR is still there. She noted that an existing system would be used for remitting the new surcharge, so no new positions would be required, and called HB 158 a viable, fair and long-term funding source for SPAR.

Rep. Bryce Edgmon, D-Dillingham, said the bill represents an era when individual Alaskans and communities are going to be asked to pay more for services

formerly provided by the state or federal government. He said he knew it was a "very difficult choice" for some members, but called it a fair compromise.

Wilson, Kawasaki and Rep. David Guttenberg, D-Fairbanks, all spoke against the bill, with Guttenberg saying while there needed to be a spill response and cleanup fund, this was the wrong way to fund it.

Rep. Paul Seaton, R-Homer, spoke in favor, responding to charges that items from a SPAR audit needed to be addressed. Seaton, also on the DEC Finance subcommittee, said there was an old audit, and members have worked diligently with the department to make sure some of the

duties SPAR previously had were removed. Cost causer should be cost payer had been argued, and Seaton said the bill does that because users of the most refined fuel pay the most.

Rep. Lance Pruitt, R-Anchorage, said the bill shows the reality the state is currently living in and said it also shows that the Legislature has been negligent in addressing a problem they've seen coming. Response and prevention are the policy of the state, he said, and because it's a policy of the state the Legislature needs to support it. ●

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Photo: Volunteers from ConocoPhillips help to restore a salmon stream in the Mat-Su. © Clark James Mishler

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## FACILITIES

### Flooding forces closure of Dalton again

Flooding has once again forced the closure of the Dalton Highway after it was briefly opened following the clearing of unprecedented levels of overflow.

The highway will remain closed though April 13 as crews tackle further complications from a storm that has created low visibility and prevented crews from keeping up with the overflow on the road and snow drifts, Alaska Department of Transportation spokeswoman Meadow Bailey said. A 35-mile section between mileposts 378 and 413 was closed.

Trucks use the highway to take supplies to North Slope oil fields, but the blockage essentially put a halt to those deliveries.

#### Sagavanirktok overflow

Unprecedented levels of overflow from the Sagavanirktok River began flooding the highway the week ending April 3. That made a portion of the highway impassible and truck drivers trying to drive to and from Prudhoe Bay had to wait as long as three days before proceeding, the Fairbanks Daily News-Miner newspaper (<http://is.gd/DT58iK>) reported.

The closed stretch was reopened April 2.

Bailey said crews were able to keep the highway somewhat passable through most of April 3. But serious delays began again April 4 as more water and ice reached the road.

“It’s still a serious thing, and they’re still trying to battle it,” Bailey said.

The transportation department has dealt with overflow from the Sagavanirktok River before, but never on a level near the flooding the first week of April, according to Bailey. Department hydrologists are assessing the problem, but have not yet identified the cause, she said.

The department plans to make changes to the stretch of highway starting this summer and continuing through next year.

In work set to take place this summer, a portion of the road will be raised by 7 feet at an estimated cost of \$27 million. Next year, plans call for another portion of the road to be raised at an estimated cost of up to \$50 million.

—ASSOCIATED PRESS

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## NATURAL GAS

# AIDEA Interior energy bill moves in House

By **KRISTEN NELSON**

Petroleum News

House Bill 105, the bill on Alaska Industrial Development and Export Authority loan and bond authority and the Interior energy project, passed the House Resources Committee April 8 with amendments, a number of which administration representatives opposed.

The portion of the bill related to Interior gas changed a requirement in Senate Bill 23, passed in 2013, which required that the North Slope be the source of natural gas for a liquefied natural gas project serving Interior Alaska.

The majority of amendments — all of which were adopted — were by Rep. Mike Hawker, R-Anchorage. The first amendment, to which the administration did not object, requires that AIDEA deliver quarterly written reports to the Legislature on Interior energy projects. There was also no objection to an amendment offered by co-Chair Dave Talerico, R-Healy, requiring that monies authorized only be used for an Interior energy project.

Fred Parady, deputy commissioner of the Alaska Department of Commerce, Community and Economic Development, said there was no intention to use the money for anything else.

#### Administration objects

The administration did object to requirements that an Interior energy project be regulated by the Regulatory Commission of Alaska, that AIDEA receive legislative approval for the Interior energy plan, including sources of the natural gas, estimated project cost and estimated price of natural gas under the project for utilities in Fairbanks and that natural gas contracts

*The first amendment, to which the administration did not object, requires that AIDEA deliver quarterly written reports to the Legislature on Interior energy projects.*

must be between a producer and a distribution utility.

On the requirement that the project be subject to rate regulation under RCA, Parady said that under existing statute the Fairbanks North Star Borough can seek regulation if in its best interest, with the FNSB Assembly the governing body.

Rep. Paul Seaton, R-Homer, said the goal was a project which moved rapidly, and involving RCA could put a damper on that forward motion. Hawker said the intent was to protect ratepayers, because if the Interior energy project was owned by AIDEA it would be exempt from rate regulation.

#### State oil and gas company?

Hawker said that as a policy call, legislators don't want AIDEA to become a state-owned oil and gas company, so he proposed an amendment that AIDEA “may not purchase or acquire gas reserves or a gas lease or become a working interest owner of a natural gas lease” without legislative approval. He said he was concerned because he was hearing about folks from the administration talking to energy companies in Cook Inlet about acquiring gas reserves in the ground. Nothing, he said, prohibits the Interior utilities from buying natural gas, but he said he didn't think it was a good idea to allow the state, with its

see **AIDEA BILL** page 19

## PIPELINES & DOWNSTREAM

### Edmonton builds oil storage

Keyera and Kinder Morgan, two midstream companies, have joined forces to build 4.8 million barrels of new storage in the Edmonton marketing hub.

They will spend a combined C\$672 million on the terminal, while Kinder Morgan will an additional C\$69 million on connecting pipelines and infrastructure.

The facility will be designed to increase capacity to 6.8 million barrels, depending on future demand. The initial volumes are underpinned by a number of take-or-pay contracts.

The joint venture will involve building 12 crude storage tanks on 80 acres owned by Keyera, with commissioning of the first tanks scheduled for the second half of 2017. Kinder Morgan will oversee operation of the facility.

Keyera Chief Executive Officer David Smith said there has been a clear growth in demand for crude storage as production volumes have grown in Western Canada and the availability of land for terminals has become “pretty tight” in the Edmonton area.

Kinder Morgan executive John Schlosser said completion of the project will have seen his company build its merchant storage from zero to 12 million barrels in 10 years, playing a significant role in the creation of Edmonton as a North American crude oil hub.

Smith said there is 7.2 million barrels of merchant storage available for leasing to customers in Edmonton and 8.3 million barrels of regulated storage owned by pipeline companies Kinder Morgan and Enbridge.

Energy intelligence firm Genscape reported inventories in Edmonton were at about 64 percent of capacity in late March.

Customers for the new terminal will be able to move products from the new terminal to markets in the United States and Eastern Canada in various ways, including pipelines and rail.

Output from the oil sands, regardless of the current market saturation, is still expected to grow to 6.4 million bpd by 2030 from 3.5 million bpd in 2014, according to the Canadian Association of Petroleum Producers.

—GARY PARK



## ENVIRONMENT & SAFETY

### Research institute develops oil spill robot

Scientists in the Virginia Institute of Marine Science have developed a new design of remotely operated underwater vehicle that can measure the thickness of an oil slick in Arctic waters. The small, square-shaped device can travel on the seafloor using powerful motorized tracks. It uses upward directed sound waves that are reflected back downwards from the slick to precisely measure the thickness of the oil. An umbilical cable connects to a laptop computer for controlling the device.

While precise thickness measurements can enable the accurate assessment of total oil volumes in a slick that covers a wide area, knowledge of where the thickest parts of a slick lie can enable responders to focus their efforts most effectively, the researchers say.

“Gauging the volume of a spill and the extent and thickness of its surface slick are usually done by visual surface surveillance from planes and boats, but that can be quite difficult,” said project leader Paul Panetta. “Our remote operated vehicle uses acoustic signals to help more easily locate and focus on the thickest part of the slick.”

Funding for the initiative has come from the Bureau of Safety and Environmental Enforcement’s oil spill response research program. The research team conducted tests of a prototype version of the device in BSEE’s Ohmsett off-shore spill response test tank in New Jersey. The Ohmsett tests involved the use of a variety of crude oils and refined petroleum products.

—ALAN BAILEY

*The small, square-shaped device can travel on the seafloor using powerful motorized tracks.*

## EXPLORATION & PRODUCTION

### Conoco permitting 2 Kuparuk projects

ConocoPhillips Alaska Inc. is permitting two small projects at the Kuparuk River unit.

The first would create a tanker truck loading area at the west end of Drill Site 2N. The second would create a small staging area along an access road to the new Drill Site 2S.

The DS-2N loading area project would use approximately 6,950 cubic yards of gravel, most likely taken from Mine Site C, to make a 0.72-acre pad. The project would begin in mid-August 2015 and run through May 2016, according to permitting documents.

The Alaska Department of Natural Resources is accepting comments through May 4.

The DS-2S staging area project would use approximately 4,500 cubic yards of gravel, also most likely from Mine Site C, to make a 0.24-acre pad and a short road. The project would begin in April, in advance of planned pipeline activities, according to filings.

ConocoPhillips told the state that it needs to finish building the staging area before it begins a tie-in of the DS-2S water injection pipeline in mid-May and a tie-in of the DS-2S crude oil pipeline between June 18 and 30 when Central Processing Facility-2 will be shut down for regular maintenance. “Completion of the tie-in work on schedule is critical, because any delays will likely result in an interruption of oil production through the existing pipeline,” the company told state officials in permitting documents.

The state is taking comments of the plan through April 16.

DS-2N and DS-2S are both in the southwest corner of the Kuparuk River unit.

—ERIC LIDJI

continued from page 18

### AIDEA BILL

heavy hand of regulation, to step in and compete against utilities for gas purchases.

John Springsteen, AIDEA executive director, said he was concerned the amendment would present a hurdle to financing small developments since resources are often a part of financing. He said often AIDEA was provided a lease as security. Jim Hemsath, the agency’s project development and asset management director, said when AIDEA did the deal on Mustang it came away with a 20 percent working interest ownership and said working interest is very important as collateral.

Hawker said he understood the issue, but said he believes it remains crucial that we tell those who have been out negotiating for Cook Inlet gas that legislative approval will be required, and said he would work with AIDEA as the bill moved forward.

The bill goes next to House Finance. Senate Bill 50, the companion legislation, is in Senate Finance and as of April 9 was fairly close to the administration’s proposed bill. ●

Contact Kristen Nelson  
at knelson@petroleumnews.com

continued from page 16

### LATERAL LINE

enter APC’s higher pressure system at APC’s Kalifonsky station, use of the lateral will reduce greenhouse gas emissions by eliminating the horsepower required for decompression and recompression.

APC said transportation costs will be reduced for gas withdrawn from CINGSA, since gas shipped on the lateral would be spared the 29 cents per thousand cubic feet charge for transportation on the KBPL system, expected to save CINGSA customers an estimated \$1.3 million to \$1.7 million annually in gross transportation costs.

The lateral would also “defer, diminish, or eliminate” the need to add compression at APC’s Kalifonsky station. ●

Contact Kristen Nelson  
at knelson@petroleumnews.com

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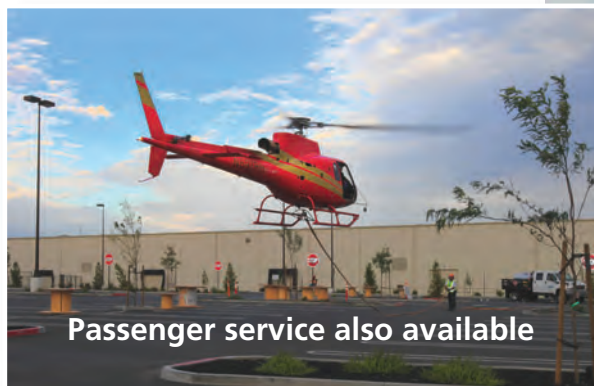
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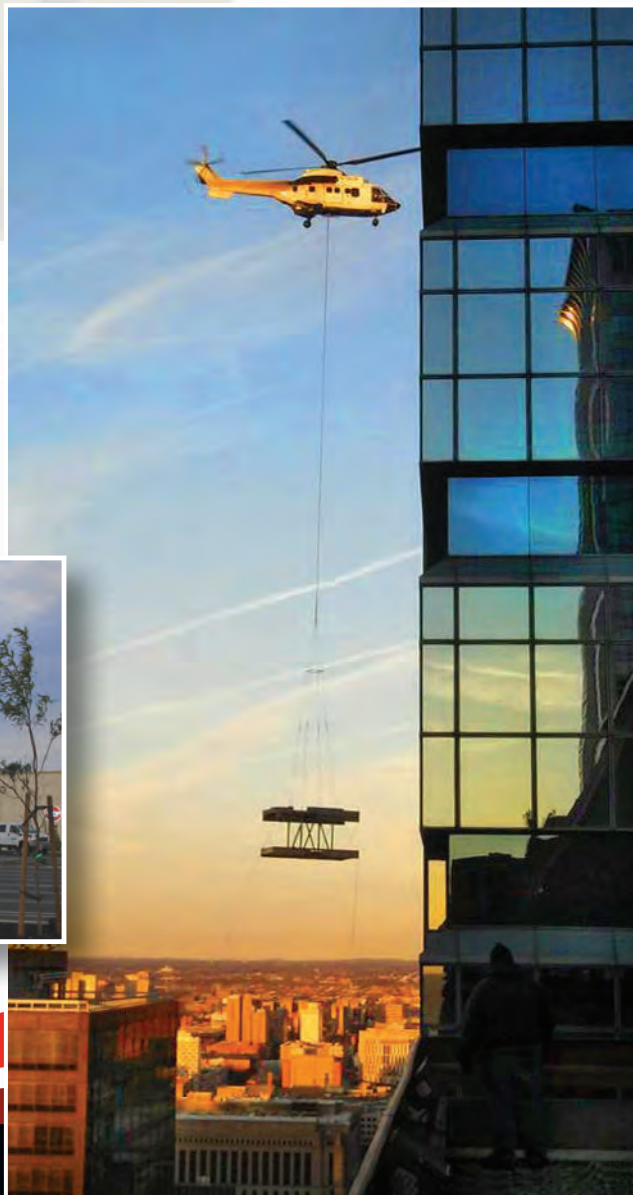
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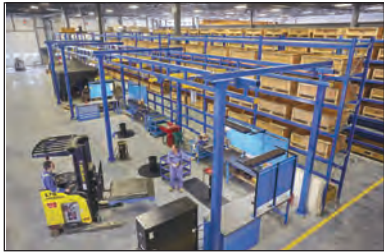


Volant’s additional need for space spurred by demand

The Volant Group of Companies proudly announces expansion of its operations by taking lease of a new building space immediately north of its current headquarters in Edmonton, Alberta. Volant has signed a long-term lease for an additional 36,000 square feet of space, bringing its total warehouse and office space to approximately 124,000 square feet. This move is due to increased operations and staff expansion over the past year and to meet an ever increasing demand for its innovative product offerings within the oil and gas industry. Volant officially moved into the new space March 2.

“We moved into our flagship facility about four years ago and with the success we have experienced we are now compelled to expand our operations,” stated Dan Shute, president of Volant. “Volant has been evaluating its need for additional space for the past year to support our growth projections during the next 5 years. We are confident that this additional building space will meet both ours and our customers’ needs now and into the future.”

For more information on Volant please visit [www.volantproducts.ca](http://www.volantproducts.ca).



COURTESY VOLANT

Fairweather receives BP safety award

Fairweather has announced that they are the recipients of the BP Cole Griggs Award for Safety. The Cole Griggs Award is given out each year to one of BP’s contractors for outstanding performance in safety.

The award recognizes the outstanding safety record of Fairweather’s BP tool service contract. One of Fairweather’s longest and most successful operations, the BP tool service contract provides personnel for the management of BP’s rig moves and coordinates the identification and delivery of drilling tools needed for oil production. The crew provides these critical services on location 365 days a year in some of Alaska’s harshest working conditions. The tool services’ crew has achieved an outstanding safety record with no recordable incidents since 2008, and it has been more than 21 years since the occurrence of a lost time incident. In addition to attending morning and evening safety meetings, crewmembers attend more than 155 hours of extra HSE training each year. Every crewmember is qualified to impose stop work authority if an unsafe situation is detected.



COURTESY FAIRWEATHER

see **OIL PATCH BITS** page 22

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

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## MEYER Q&A

with AGIA. Although TransCanada is still our partner, we feel like we are getting some of that information that TransCanada obtained through AGIA. We just don't money to waste, not that we would waste it, but money is tighter now that it ever has been.

*Petroleum News: What's different between this new administration and the Palin administration when it was new?*  
Parnell really wasn't a wholesale change.

Meyer: I think with Gov. Palin, you at least knew a lot of the people she put in place. You may not have necessarily have agreed with her but the people she put in place we kind of had worked with. We knew them. They knew us. They knew the process. Gov. Walker is bringing people who are new to the process. Some don't have governmental experience, which is OK. It makes it a little slower going. We have to almost educate them on how things work.

What they should and shouldn't be doing. For example, the Medicaid expansion: Neither the governor nor the commissioner were familiar with when you have something as big as this, you really should do a bill and have a hearing. As you know it was just in the operating budget just to expand. We may still expand Medicaid. I don't know. It took us to introduce a bill kind of on his behalf. Then he introduced one.

*Petroleum News: Does that speak to your concern about his gas line plan. You want a bill brought forth?*

Meyer: We are here for the public. If the public doesn't have a chance to weigh in, speak their mind and see what we are doing, I think we are doing a public injustice.

*Petroleum News: With going to FEED and the deadline not until next year, what would you like to see accomplished by then?*

Meyer: The right-of-way access bill we have and I think we will pass this session. Working with the municipalities over the interim and get their concurrence on the PILT bill. The royalty in kind versus the royalty in value should be resolved during the interim. (Resources chair) Sen. Giessel has a list she is keeping an eye on. At least we know two of the three are in progress. I haven't heard much on the royalty in kind versus the royalty in value.

*Petroleum News: Switching gears a little, you arrived in Juneau and pretty soon thereafter got a surprise from the Obama administration with the ANWR wilderness designation and redrawing lines for OCS development. It even prompted several of you to take an unplanned trip to Kotzebue to meet with Secretary Jewell. What do you make of all that?*

Meyer: I think we were blindsided at the federal level that they were even contemplating doing those things. It seemed strange that she picked the method she did to come to Alaska to explain. We were worried that she was purposely using Kivalina as a backdrop to illustrate climate change, and that's why we can't have ANWR and all of these other areas for oil and gas because look what it's doing to the climate.

Then she kind of surprised us by giving Shell its last permit. Everything I'm told is that Shell is going to go forward, which is great news. Obviously it doesn't help the state's revenue anytime soon, if at all. It does help the overall economy when Shell is up here spending millions of dollars.

I don't know why they haven't made a

public announcement yet, but they have made a discovery and they will be working on that over the next three to four years. We know ConocoPhillips, even though oil prices are low, they are moving forward. So we've got some good things happening in our economy, which is needed.

Getting back to Secretary Jewell, yeah we were kind of upset with her ever since she announced there would be no road out of King Cove, then when she announced ANWR and then took off areas from OCS, yet the federal government hasn't cleaned up their own mess.

NPR-A was another area of concern because ConocoPhillips was having a hard time getting its permit, which they ultimately got but they had to agree to a mitigation fund, which the feds are using that money to clean up the legacy wells. That doesn't look good.

*Petroleum News: Do you feel like there is some hypocrisy there that they won't clean up their own mess?*

Meyer: Secretary Jewell seems like she was so concerned about the negative effects of additional oil and gas development in the Arctic and the state of Alaska, and what my happen, but they haven't cleaned up their own mess form the 1950s, so yeah, hypocrisy is a good word for it.

I think if we can just stop any more negative damage to our state, our state economy and our state's future economy by not allow 1002 Area to be shut down and not take any more land off with potential oil and gas development, especially NPR-A, which was set aside for that purpose.

I think that is the best we can hope for the next two years under the Obama administration. We've got good people working for us back there: Don Young, Dan Sullivan, Lisa Murkowski.

*Petroleum News: One person can't do it all, but how much does it help to have Lisa Murkowski as Energy chair?*

Meyer: It helps a lot. Nothing will get done in a negative way through the legislative process, but again no one is exactly sure what he will do through the executive process.

*Petroleum News: OK, getting back to Shell for a minute, what do you think this means for the Arctic and future development should they proceed without incident and show they can operate safely.*

Meyer: I think it's a huge positive sign.

First of all, it breaks the ice so to speak, and that we can safely drill for oil and gas. We've been doing it for sometime in Cook Inlet. That's part of the Arctic. Most people look at the Chukchi and the Beaufort as the true Arctic. It's pretty much virgin area. The fact that they are coming back now is a good sign, a positive sign. I think they are thinking it's mostly gas, but they may find oil. The bottom line is you're going to need both for a long time in the near future.

*Petroleum News: If it goes as Shell hopes, do you think that bodes well for Conoco and Statoil?*

Meyer: I think so. I'm not going to speak for ConocoPhillips or Statoil or any of the others, really. But I think they are laying low, watching Shell pave a trail and once they are successful, I think you will see others. That is the future. It's better us than the Russians are already out in that area.

*Petroleum News: Would the last piece of the puzzle be getting an increased share of federal revenues the way the Gulf receives a share? I know that's out of your hands.*

Meyer: That would be nice. We will keep pursuing it. Whether we actually get it or not, I don't know. Even if we don't we still get the economic benefits of having that activity. They will have to build a port and have ice breakers on hand. That will lead to other activities up there we currently don't have.

*Petroleum News: You got another surprise recently: Word that Washington Gov. Jay Inslee reached out to Secretary Jewell expressing concern over Shell working in the Arctic this summer, among other*

things.

Meyer: We knew there were issues there with Shell having a rig at the Port of Seattle. I guess some environmental groups are suing over it. Now I hear environmental groups are climbing on it. Then when we saw the letter from Gov. Jay Inslee secretary Jewell, yeah, we were surprised.

(Meyer reading from the letter) "I cannot in good faith support this new oil and gas development given the low and insufficient progress that countries have made to date in limiting carbon pollution. In the absence of that progress, the nation should not invest of new long-term infrastructure for Arctic production that will increase and further entrench our use of fossil fuels. The federal administration should not enable new oil and gas drilling in these untouched areas that host such a fragile environment."

This is very concerning. We are going to write a letter to the governor. We'll give a copy to our governor and hopefully he'll write a similar letter. Even if he chooses not to, we at least want the state of Alaska's concerns to be heard. We also have a resolution in the works.

Basically, he's butting in, and we don't like it.

*Petroleum News: Were you surprised because it's not as if you have regular dealings with a Democratic governor?*

Meyer: A little bit. We don't interfere with what the state of Washington or the city of Seattle does with its economy. Or what they want to do, or not want to do. So we prefer they not intervene in ours as well. Certainly, I'm going to be a New England Patriots fan in the future. ●

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## OIL PATCH BITS

"BP is a great partner in safety. We thank them for recognizing the Fairweather team and stressing the importance of safety as a deeply held and shared value," said Rick Fox, president and general manager of Edison Chouest Offshore Alaska.

A member of the Edison Chouest Offshore group of companies, Fairweather LLC is a 39-year-old Alaska company providing remote medical, aviation, logistics and scientific support services to Alaska's natural resource industry.

For more information, contact Brian McKay, Fairweather director of QHSE at 907-270-6804, or visit [www.fairweather.com](http://www.fairweather.com).

### Motion Industries releases Tom's Toolbox video

Motion Industries, a leading distributor of industrial maintenance, repair and operation replacement parts has released a new Tom's Toolbox video that highlights the importance of proper handling and storage of bearings. Tom's Toolbox videos are available for viewing on Motion Industries' MIHow2 YouTube channel, which was established in 2012.

"Proper Bearing Handling and Storage with SKF Bearings" provides the viewer guidelines on how to get the most out of their bearings before they are even installed. The video can now be seen on the MIHow2 channel, under the Tom's Toolbox heading.

"Properly storing bearings helps to ensure that your investment pays off," said Randy Breaux, Motion Industries' senior vice president, Southern U.S. operations, corporate marketing and strategic planning. "Proper storage extends the life of the bearing, and therefore reduces downtime."

Tom's Toolbox embodies the "how-to" format but in shorter time snippets. In the series, the witty and always informative host Tom Clark demonstrates a broad range of solutions designed to save viewers money and time, and/or keep safe on the job. Each Tom's Toolbox video short is filmed in a workshop setting or an appropriate off-site setting. The series is also available for viewing via Facebook and YouTube. Additional Tom's Toolbox videos are scheduled to be posted in coming weeks.

For more information visit [www.motionindustries.com](http://www.motionindustries.com).

*Editor's note: All of these news items — some in expanded form — will appear in the next Arctic Oil & Gas Directory, a full color magazine that serves as a marketing tool for Petroleum News' contracted advertisers. The next edition will be released in September.*

continued from page 1

## DRILLING FLEET

of assets to the Chukchi would be similar to that of Shell's 2012 Arctic drilling program. In 2012 Shell planned to move its fleet north into the Arctic in early July, although unusually heavy sea ice in the Chukchi Sea that year delayed operations.

Shell plans to conduct ice overflights to observe the breakup of sea ice in the summer and has applied to the National Marine Fisheries Service for an authorization for the unintended disturbance of marine mammals by these flights.

### Two drilling vessels

This year Shell plans to use two drilling vessels in the Chukchi — the Noble Discoverer and the Polar Pioneer. In 2012 the company used just the Noble Discoverer in the Chukchi, while deploying the Kulluk floating drilling platform to the Beaufort Sea for exploration drilling there. This year Shell has no plans for drilling in the Beaufort. In 2012 the Kulluk ran aground in the Gulf of Alaska after the end of the drilling season and has since been scrapped.

Among the permits that Shell needs is an exploration plan, approved by the Bureau of Ocean Energy Management. In association with an appeal against the Chukchi Sea lease sale in which Shell purchased its Chukchi leases, a court injunction banning Chukchi Sea lease related activities had delayed BOEM's ability to complete its exploration plan review. However, with the issue by BOEM on March 31 of a new record of decision affirming the sale, the review process has presumably been able to proceed.

But Shell faces some legal uncertainty over an appeal in the 9th Circuit Court of Appeals against the company's Chukchi Sea oil spill prevention and response plan. The court heard oral arguments in this case in August 2014 but has since remained silent.

### Greenpeace boarding

On April 6 a team of Greenpeace protesters used ropes and harnesses to climb aboard the drilling vessel Polar Pioneer, under tow in the Pacific Ocean about 750 miles northwest of Hawaii, and set up camp on the underside of the vessel's main deck. On the next day Shell filed a complaint in the federal District Court in Alaska, seeking

an injunction against the boarding and against future Greenpeace interference with vessels operated for Shell in conjunction with the company's outer continental shelf operations.

"These acts are far from peaceful demonstrations," Baldino told Petroleum News. "Boarding a moving vessel on the high seas is extremely dangerous and jeopardizes the safety of all concerned, including both the people working aboard and the protesters themselves. While we recognize the right to voice an objection to our planned Alaska exploration program, we can't condone Greenpeace's unlawful and unsafe tactics."

In 2012 Shell obtained an injunction from the District Court, banning Greenpeace from trespassing on any of Shell's vessels or entering specified safety zones around the vessels.

### Containment system trial

On April 6 the Bureau of Safety and Environmental Enforcement reported that BSEE Director Brian Salerno and Interior Assistant Secretary Janice Schneider had spent two days observing trials of Shell's containment dome. The equipment is deployed from a converted barge called the Arctic Challenger. Baldino said that the trials took place in Puget Sound, in the Pacific Northwest.

"Though Shell successfully showed that they can deploy the containment dome, we will remain engaged during future inspections, reviews, tests, and drills of Shell's safety equipment and their capabilities to deploy them in an emergency situation," Salerno commented. "This work is to ensure that, should drilling occur, Shell can conduct source containment operations safely and in a manner appropriately protective of the environment."

Delays in the completion of the newly developed containment dome system and subsequent problems with the testing of the system became a significant problem for Shell during its 2012 Chukchi Sea drilling season.

For the 2015 drilling season Shell has said that it plans to position the Arctic Challenger in Kotzebue Sound, offshore northwestern Alaska — the company has applied to Alaska's Division of Mining Land and Water for a permit to place four mooring buoys near Goodhope Bay in Kotzebue Sound. In its permit application Shell says that it maintains subsistence advisors in the villages of Kotzebue, Deering and Buckland to minimize conflict with local subsistence activities by informing the drilling team of subsistence activities. ●

Contact Alan Bailey  
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## NUNA SANCTIONED

ed some uncertainty as to whether Caelus would ultimately choose to proceed.

“We are excited to report that our Nuna development project has been fully sanctioned, construction activities have commenced and we are safely on track to satisfy all the milestones required by the January 20th Royalty Modification,” Foley wrote.

Just five days after the ruling, Caelus began mining at Mine Site E and hauling gravel to the development site, in the Oliktok Point region. Before the end of winter, the company intends to use approximately 985,000 cubic yards of material to build a 2.5-mile access road, a 22-acre drill site and an expansion of an existing tie-in pad, according to Foley.

The company told state officials it has already “prepared and executed” 16 authorizations for expenditure totaling more than \$480 million and intended to

prepare another 31 authorizations for well operations, totaling, in aggregate, more than \$800 million.

### Four years from proposal

The Nuna development targets the Torok formation at Oooguruk.

Pioneer Natural Resources Alaska Inc. proposed the Nuna development in late 2010, after having drilled through the Torok formation for several years to target deeper oil reservoirs.

Initially, Pioneer developed the Oooguruk unit using an artificial gravel island. The Nuna satellite, though, was too far south to be economically developed from the island. Instead, Pioneer wanted to build at least one onshore drill site and potentially standalone facilities.

In early 2012, Pioneer drilled the Sikumi No. 1 well from an offshore ice island and the directional Nuna No. 1 from an onshore ice pad. A “deep test” of the Ivishak at Sikumi No. 1 was “basically non-commercial,” but Nuna No. 1

yielded a 50 million barrel discovery from the Torok. Pioneer drilled the Nuna No. 2 appraisal well in early 2013 and increased its estimate for the Torok to a range of 75 million to 100 million barrels.

When Caelus acquired the Alaska assets of Pioneer Natural Resources Inc. in late 2013, the company said it would begin developing Nuna “pretty much immediately.” And after the company closed on the acquisition, in early 2014, CEO Jim Musselman said, “We’ve got the funds committed and we’re moving forward as quickly as we can,” estimating some \$550 million on new facilities and \$800 million to \$900 million for drilling wells.

In July 2014, after having evaluated the geology more closely, Caelus asked the state to modify the royalty structure at Nuna, saying it would be unable to proceed otherwise.

The company requested a flat 5 percent royalty rate on 11 leases until the project reached payout — meaning rev-

enues had covered upfront costs — at which point royalty rates would increase by 1.875 percent annually, for four years, and then return to their original levels. Instead, the state offered the company a 5 percent royalty rate on five Nuna leases if Caelus met various sanctioning, spending and development targets through early 2017.

In late January, after a comment period that yielded some skepticism, most notably from Rep. Les Gara, the state approved the royalty reduction. The ruling required Caelus to sanction the project by the end of March 2015, start spending money by the end of September 2015, spend at least \$260 million and bring the field into sustained production by the end of September 2017. The final decision also retained early requirements for Caelus to provide public reports to extend knowledge about developing similar geology. ●

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## BC LOGJAM

treaties close to completion should be fast-tracked, while exit strategies should be prepared for those with little prospect of settlement.

The report makes dozens of recommendations, many of them focused on the need to promote a “principled dialogue” about resource development to advance energy pipelines and marine safety and strategies to mitigate potential impacts of oil spills.

### ‘Lack of urgency’

“There is a conspicuous lack of urgency in negotiations and in many cases there are sharp differences between the parties about the core elements of a modern treaty,” Eyford wrote.

“It is never too late to engage and do so in a process of good faith negotiations,” he told reporters. “This won’t be easy. I hope my report will provide objective and blunt advice to all the parties engaged in this process.”

In a rebuke of some First Nations, he said the negotiations have created an “aboriginal rights industry” by offering incentives in some First Nations to drag out negotiations, thus prolonging jobs of aboriginals involved in the process.

He said communities, many of which have only a handful of members, are motivated to avoid reaching a deal because that would trigger a requirement to pay back federal loans from whatever cash settlement was reached.

Eyford also urged the Canadian government to work with British Columbia and aboriginal groups to establish a roster of retired judges and dispute resolution specialists to help resolve the disagreements among aboriginal communities that have overlapping claims to land.

“The fact the treaty process provides a constant source of funding and employment in aboriginal communities can serve as a disincentive to conclude negotiations,” he wrote, adding many communities “are simply not ready to take on the responsibilities of a treaty despite spending a decade or longer in negotiations.”

### BC as an example

Eyford said Canada must embrace the initiatives shown by the British Columbia government, which has reached more than 250 resource-sharing and economic development deals with First Nations without the need to involve the Canadian government or a commitment to reaching

treaty settlements.

He said such agreements are supported by natural resource industries and aboriginal groups including the Tsilhqot’in National Government that won a landmark Supreme Court of Canada decision last year covering a huge tract of land.

Eyford noted the Tsilhqot’in community is open to non-treaty pacts in areas of governance, land use planning education, health, child and family services and employment training.

Those types of deals underpin efforts of Premier Christy Clark’s British Columbia government, which caused an uproar in March when it made an abrupt change to the British Columbia Treaty Commission and withdrew its support for incoming treaty commissioner George Abbott, a former provincial cabinet minister.

Clark said the commission’s “status quo is not working. We have to be able to move faster.”

But she would not be drawn into defining what shape the new process would take, beyond insisting that continued allocations of millions of dollars in grants and loans to support negotiations was not sustainable.

British Columbia Aboriginal Relations Minister John Rustad praised Eyford’s call for “new and innovative ways to

achieve lasting reconciliation with First Nations.”

### Federal process stymies progress

Eyford also said the Canadian government’s complex and bureaucratic approval process for elements of each claim stymies progress at negotiations table.

He found there is a consensus among First Nations that the federal government is “unresponsive” to aboriginal interests, “rigid and inflexible” in applying its policies and interested only in meeting its “minimal legal obligations.”

Federal Aboriginal Affairs Minister Bernard Valcourt said his government is taking steps to make the treaty process “more effective for the benefit of all Canadians,” but promised only to consult aboriginal groups and other stakeholders on Eyford’s findings.

Still to be resolved is the thorny issue of overlapping land claims, which the British Columbia Treaty Commission identified six months ago as “one of the biggest challenges to be overcome.”

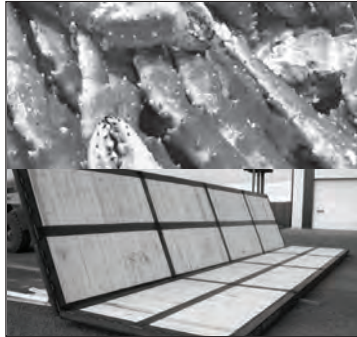
Currently, more than 100 percent of British Columbia is subject to claims by First Nations.

Judith Sayers, chief negotiator for the Upacasath First Nation and an assistant law professor at the University of Victoria, said treaty claims were never supposed to proceed to even an agreement-in-principle stage until boundary issues were resolved.

But she said governments want “settlement so badly that they don’t care about overlap.”

—GARY PARK

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## CONOCO CUTS

reductions of about \$500,000 in 2015.

How is Alaska impacted by cuts in response to the drop in oil prices?

ConocoPhillips Alaska spokeswoman Natalie Lowman told Petroleum News in an email that ConocoPhillips is reducing its worldwide workforce due to “(t)he current challenging economic environment,” but the high level of work in Alaska means that fewer than 2 percent of the company’s Alaska workforce will be impacted.

Lowman said the cuts are “a difficult process, but we care about every employee and will assist those affected with out-placement services and other associated benefits.”

### No major project change

But, she said, there will be “no change to the major capital projects we have already announced.”

Nabors rigs 9ES and 7ES are still drilling at Kuparuk, she said. New-build rigs the company has ordered, Doyon 142 and Nabors CDR3 are still on order. And work at CD-5 and Drill Site 2S is

on schedule.

Lowman said there are some 700 construction jobs on site at CD-5 this winter. This is the new drill site that ConocoPhillips is developing west of the Colville River unit connected to the Alpine main pad by road and bridge. There are also some 200 construction positions at Drill Site 2S, she said. Drill Site 2S is the late 1980’s ARCO discovery in the southwest corner of the unit which ConocoPhillips appraised in 2012 with the Shark Tooth No. 1; the new drill site was sanctioned late last year.

Lowman also noted that

ConocoPhillips recently approved viscous oil development 1H NEWS at Kuparuk and has finished a seismic shoot at Greater Mooses Tooth 1 in the National Petroleum Reserve-Alaska and is planning geotechnical work and continuing engineering, “but no decision has been made on timing of the project’s funding approval.”

Between Alpine and Kuparuk, Lowman said, ConocoPhillips has six rigs operating.

—KRISTEN NELSON

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## ANWR DECISION

refuge. Although in establishing ANWR Congress recognized the potential for oil development on the coastal plain of the refuge, development within the coastal plain requires Congressional approval — that approval has never been forthcoming. A wilderness designation, which also has to be enacted by Congress, would per-

manently place the coastal plain of the refuge off limits for oil and gas drilling.

The U.S. Geological Survey has estimated that there may be some 10.4 billion barrels of technically recoverable, undiscovered oil under the coastal plain of the refuge.

### Officials protest

The proposal for wilderness designation provoked a storm of protest from Alaska officials.

“The vast majority of Alaskans do not support creating new wilderness in ANWR, so I am disappointed to see the Obama administration is continuing to press the issue,” said Sen. Lisa Murkowski, R-Alaska. “Congress designated the coastal plain of ANWR for oil and gas exploration more than three decades ago and we will continue to fight against the administration’s efforts to impose new restrictions on Alaska’s lands and resources. A congressional designa-

tion of the coastal plain as wilderness will not happen on my watch.”

“This outrageous proposal from the Obama administration will undermine Alaska’s future and America’s energy security. It will never see the light of day in Congress,” said Sen. Dan Sullivan, R-Alaska. “President Obama’s goal of starving the trans-Alaska pipeline of oil and turning our state into a giant national park will not stand.”

### Comments on proposal

The record of decision says that nearly all commenters on the ANWR environmental impact statement had addressed the issue of the proposed wilderness designation, with a primary focus being the effect of the designation on potential oil and gas development. The Gwich’in people, a Native people of Arctic Alaska, generally support the wilderness recommendation on the grounds that a wilderness designation would protect caribou and other wildlife, the record of decision says. On the other hand, the Inupiat people, the Native people of Alaska’s Arctic coastal region, oppose the designation, which they think would limit or preclude economic opportunities.

*The U.S. Geological Survey has estimated that there may be some 10.4 billion barrels of technically recoverable, undiscovered oil under the coastal plain of the refuge.*

Environmental organizations praised the Fish & Wildlife decision.

“This wilderness recommendation is a huge step toward permanent protection for one of America’s last great wild landscapes, and a victory for millions of Americans who want Alaska’s Arctic Refuge left in its natural state,” said Nicole Whittington-Evans, Alaska regional director for The Wilderness Society, in response to the issue of the record of decision. “Protecting the refuge — particularly the fragile coastal plain — from oil and gas development is vital for the long-term survival of the Porcupine caribou herd and the Native Gwich’in communities that depend on the herd for food.”

The record of decision says that, although Fish and Wildlife has recommended a wilderness designation for the coastal plain of the refuge, the agency proposes continuing to manage the area under what is referred to as a minimal management standard, a standard which provides similar management tools to wilderness management but which the agency can change through a conservation plan amendment. Federally qualified subsistence users will continue to be able to use refuge lands for subsistence purposes, the record of decision says. ●

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