Liberty starting line

Feds deem Liberty application complete; in-depth review officially begins

By ERIC LUDJI
For Petroleum News

Hilcorp Alaska LLC has officially submitted its development plan for Liberty.

The U.S. Bureau of Ocean Energy Management said Sept. 18 that the independent oil company had submitted a completed plan to develop the offshore oil field in the federal waters of the Beaufort Sea. The distinction “finally starts a 60-day review period.

While Hilcorp actually filed the “development and production plan,” or DPP, with the federal agency in the final days of 2014, federal guidelines require a preliminary review to determine that a plan has met the basic eligibility requirements for consideration. In a general, a DPP describes proposed well and infrastructure locations, drilling methods, a projected timeline for activities and impacts on both onshore and offshore resources.

“The BOEM will conduct a rigorous evaluation of this DPP, recognizing the significant environmental, social and ecological resources in the region and honoring our responsibility to protect this critical ecosystem, our Arctic communities, and the subsistence needs and cultural traditions of Alaska Natives,” BOEM Director Abigail Ross Hopper said in a statement. “Any activity proposed offshore Alaska is scrutinized using the highest safety, environmental protection, and emergency response standards.”

The federal agency is taking comments on the DPP through Nov. 17.

Before the Bureau of Ocean Energy Management can approve, deny or request modifications of the

State certifies KLU No. 3

DOG determines that exploration well discovered four gas pools; reduces royalty

By ERIC LUDJI
For Petroleum News

The state has certified Kitchen Lights Unit No. 3 as a discovery well.

With a Sept. 16 decision from Division of Oil and Gas Director Corri Feige, the exploration well became the official discovery well for four previously undiscovered natural gas pools in the Cook Inlet basin. Now, operator Furie Operating Alaska LLC and its working interest owners will pay a reduced royalty rate on production from the well.

Under the new scheme, the companies will pay a 5 percent royalty rate for all natural gas produced at lease ADL 389197 from those four previously undiscovered pools.

In or out of game

CAPP to next federal government: Unless pipelines built, oil sector in jeopardy

By GARY PARK
For Petroleum News

The Canadian petroleum industry’s top lobby group has surfaced in the midst of Canada’s federal election campaign, laying out a vigorous case for oil and natural gas to generate national prosperity.

Going head-on against the powerful forces that have knocked the industry off its once-comfortable and untouchable perch, the Canadian Association of Petroleum Producers has issued a tightly framed policy paper and sent its top executive to spread the message across Canada.

Noting that Canada has the world’s third-largest reserves of oil, yet accounts for only 4 percent of global production, while exporting its natural gas to only the United States, CAPP has argued for developing those resources to “their full potential, through leadership and fair, balanced policies to make the country attractive for investment.”

It said producers believe their industry can
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Mr. Quarles, welcome to Alaska!

Congratulations on a successful sealift from Korea to Point Thomson

Cory Quarles, a native of Houston, Texas, and an ExxonMobil employee since 1998, is the new Alaska production manager for ExxonMobil Production Co., having succeeded Karen Hagedorn, who has taken an assignment in the United Kingdom. ExxonMobil’s sealift of the processing modules for Point Thomson arrived at the North Slope field on Sept. 8 after travelling by barge over a 4,000 miles from Korea. Field operator ExxonMobil says production startup is expected in 2016.
Suncor Energy deploys piggybank

"We have too much cash on our balance sheet," he said. "We’ve been generating more cash than we anticipated when we put that CSS billion in the bank." Williams said the slump in oil prices put the squeeze on some companies, indicating there could be acquisition opportunities that didn’t exist six months ago.

He said the spread between what buyers like Suncor are willing to pay and what distressed sellers are willing to accept narrowed significantly. "Clearly prices are coming down (while) time is on our side in terms of waiting," Williams said.

He also said that allocating new capital to new internal projects would be unwise in this period of low oil prices.

What frustrates Suncor is the "stupidity" of pipeline politics in the United States and Canada, he told an energy conference in New York. "There is no monopoly on that stupidity in the United States, though we have a fair amount of it (in Canada) as well," Williams said.

Suncor currently has contracts in place to ship 600,000 bpd through existing pipelines, but progress is needed on new pipeline projects if there is to be any hope of further growth in the oil sands sector, he said.

The C$13.5 billion Fort Hills mine is designed to reach an eventual peak of 180,000 barrels per day. Total said the deal further shrinks its exposure to the high-cost oil sands. Last year it abandoned Joslyn, a separate C$6 billion mining venture that once targeted 100,000 bpd, with first oil due in 2017, "said Suncor Chief Executive Officer Steve Williams." The proposed Theodore River No. 1 well pad would actually be on ADL 391620, rather than ADL 391618, as mentioned in original permitting documents for Petroleum News Exploration LLC exploration plan currently under review for the Hanna prospect. The seller is Total E&P Canada, a wholly owned division of France’s Total, which will keep 29.2 percent of the Fort Hills project, with Suncor at 36.75 percent, followed by Occidental Petroleum with 15 percent and Inpex Canada at 10 percent.

Cash for ‘distressed assets’

Earlier in September Williams said his company’s cash holdings of C$5 billion could be used to buy “distressed assets” in fire sales.

Correction

Theodore River well correction

The Alaska Division of Oil and Gas has issued a correction to an Aurora Exploration LLC exploration plan currently under review for the Hana prospect on the west side of Cook Inlet.

The proposed Theodore River No. 1 well pad would actually be on ADL 391620, rather than ADL 391618, as mentioned in original permitting documents published online.

The state is still taking comments through Oct. 10. (By Eric Lidji)
Hawker: TransCanada decision needed soon

Anchorage Republican says progress on AKLNG project being made, but administration has pressing matters that need addressing

By STEVE QUINN
For Petroleum News

Legislative Budget & Audit Chair Rep. Mike Hawker says he’d like to have consultants help the Legislature examine a deal among the producers and the state of Alaska for a large-diameter pipeline shipping natural gas to an LNG export facility.

But he needs a deal first.

Hawker, an Anchorage Republican who also serves on the Resources Committee, issued caution against holding North Slope leaseholders to a hard-and-fast schedule for a project this big while identifying priority areas he believes needs addressing during a special session and the upcoming regular session.

Hawker discussed his take on the project with Petroleum News.

Petroleum News: Let’s start with the AKLNG project, say from a 30,000-foot view. What are your impressions thus far with any progress?

Hawker: From the 30,000-foot view, there is always progress being made. Every single day the people who need to be talking to each other are actually engaged in dialogue. They are engaged in negotiations and every time you talk you make some degree of progress.

Petroleum News: And how about as get closer to ground level? Is there more progress or do concerns emerge?

Hawker: I think that the Legislature and the public had been conditioned to anticipate that there would be a fall 2015 special session that would have a fully papered agreement for an up or down vote. I do not believe that there will be a fully papered agreement available for a 2015 special session. I believe there are certain matters that necessarily need to be dealt with in a fall 2015 special session. That is specifically our relationship with TransCanada. If the governor wishes to exit that relationship, he needs to convince the Legislature that it’s the right thing to do. The Legislature, in turn, needs to appropriate a little over $100 million to him for the buyout and substantially more money for the state to continue on its own without the financing TransCanada had brought to the table.

Petroleum News: So are you disappointed that he won’t likely have a fully papered agreement or would you rather have it ready when it’s ready?

Hawker: I think that decision, it needs to be made sometime within next year, necessarily the second quarter, the third quarter, the fourth quarter. So sometimes next year would be the anticipated date would be for making the decision to move into FEED.

Petroleum News: So you still expect FEED to be the second quarter of next year?

Hawker: I think that decision, it needs to be made sometime within next year, necessarily the second quarter, the third quarter, the fourth quarter. So sometimes next year would be the anticipated date would be for making the decision to move into FEED.

Petroleum News: OK, on to TransCanada. What are your thoughts on the prospects of buying out TransCanada?

Hawker: When Gov. Parnell introduced the MOU with TransCanada describing the continued relationship with them, what they would provide the state in expertise and financing in exchange for an equity position for the pipeline segment of the project, it was a hard sell for the administration. They really had to come to the table and convince legislators that it was the right and best thing to do. They did that successfully. I’m certainly one of those legislators. I was certainly leery of TransCanada’s role as defined in the Parnell administration’s MOU.

But through the course of a legislative session, the many, many hearings and hundreds of hours we had in SB 138, I became a believer that TransCanada brought to the table a great deal of support for the project, but both financing and technically and that their take from the project — their share of the economic pie was extremely small. I came to believe that it really was the best and right thing for the state to do to bring TransCanada into the transaction as it was contemplated.

Gov. Walker campaigned that he did not want TransCanada in the project.

Hawker: TransCanada decision needed soon

Anchorage Republican says progress on AKLNG project being made, but administration has pressing matters that need addressing

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Gov. Walker campaigned that he did not want TransCanada in the project.
Audit rattles Malaysia-based Petronas

Energy giant’s safety record censured by internal report, but BC government defends standards; First Nation claims title to key land

By GARY PARK

Natural gas development minister, told the Vancouver Sun that although the audit caught him off-guard he was not concerned about the ability of Petronas and its Pacific North West partners from China, South Korea, Japan and Brunei, “to meet the highest standards in the world” that have been set by the British Columbia government and the “strict” regulatory regime operated by the B.C. Oil and Gas Commission.

Coleman indicated he was reassured that Petronas had commissioned the audit and claimed the company’s record in the LNG sector “is impeccable.” He also found comfort in the fact that the other partners in Pacific North West have reputations they will want to safeguard and that Petronas’ stake in the project will be overseen by Progress Energy, the Calgary-based gas producer which was acquired for C$6 billion by Petronas in 2012.

In addition, Petronas has noted that its pipeline from the Progress gas fields in northeastern British Columbia to the liquefaction plant and tanker port near Prince Rupert will be built and operated by TransCanada, which Petronas describes as an “experienced major pipeline company.”

Petronas most aggressive

More than any of the British Columbia LNG proponents, Petronas has taken the most openly aggressive stance, squeezing the Canadian and British Columbia governments to provide tax breaks and assurances to protect it from any future tax increases. Far from being shaken by the audit findings, Coleman said he remains “bullish” about the Pacific NorthWest proposal.

But John Horgan, leader of the British Columbia’s New Democratic Party, which conditionally endorses the concept, said he is primarily concerned that the government of Premier Christy Clark has “sent over backwards to try and accommodate Petronas with respect to taxation and royalties and spent no time” examining the company’s environmental, health and safety records.

“That lack of due diligence is shocking to me and should be shocking to British Columbians,” he said.

Petronas reviewing engineering

In an effort to deflect attention from the audit, Petronas said it is reviewing the engineering for its terminal, as well as the location of a bridge and jetty connecting to the proposed berth for LNG carriers on Lelu Island. A spokesman for Pacific NorthWest said “significant consultation has taken place with local First Nations,” who have warned about the impact on fish habitat.

“strict” regulatory regime operated by the B.C. Oil and Gas Commission.

See INTERNAL AUDIT page 7
PWSRCAC calls for EVOS agreement

The Prince William Sound Regional Citizens’ Advisory Council has called on the U.S., Alaska, Exxon and the Exxon Valdez Oil Spill Trustees Council to agree on implementation of the 2006 restoration plan under the Exxon Valdez oil spill reopener for unknown injury.

The council passed a resolution Sept. 18 “Supporting Habitat Restoration Pursuant to Damages Caused by the 1989 Exxon Valdez Oil Spill.” The Exxon Valdez Settlement Agreement contains a reopener clause allowing the state or federal government to request additional monies from Exxon “due to unanticipated remaining oil in the environment and subsequent failure of species to recover within Prince William Sound,” the resolution states.

The provision in the settlement, entitled “Reopener for Unknown Injury,” would require Exxon to make additional payments for specific restoration projects if specific conditions are met, the council said.

The state and federal governments presented Exxon Mobil Corp. with a comprehensive plan pursuant to the reopener clause in June 2006 which provided for cleanup of lingering oil at an estimated cost of $52 million.

ExxonMobil has maintained that EVOS cleanup has been completed while environmental groups have argued that oil from the spill has been degrading at slower rates than expected. An environmental group following the issue has said that under the settlement claims under the reopener expire in June 2016.

The council cited recently published research for which it was one of the sponsors which found that even low levels of Alaska North Slope crude oil impacted embryonic salmon and herring producing heart damage and resulting in reduced swimming ability and reduced survival.

—PETROLEUM NEWS

continued from page 6

INTERNAL AUDIT

Of the five Tsimshian First Nations consulted last year, two have signed impact benefit agreements, two have yet to make a decision and the Lax Kw’alaams tribe has set up an occupation camp on Lelu Island.

“It is important to take our time and hear from all interested parties as we move through the design phase of our proposed facility,” the spokesman said.

But the Lax Kw’alaams have signaled that they are not much interested in negotiating by filing a notice of civil claim that makes their case in the British Columbia Supreme Court to gain title to Lelu Island.

The tribe’s Mayor Garry Reece said an award of ownership is needed for his community to “protect crucial salmon habitat, protect our food security and ensure that governments and industry are obligated to seek our consent.”

The defendants in the legal action include the British Columbia and Canadian governments, the Prince Rupert Port Authority and Pacific NorthWest.

Analyst: Redesign a challenge

AltaCorp Capital analyst Mark Westby, the co-author of a new report on British Columbia’s chances of launching an LNG industry, said the challenge facing Pacific NorthWest is how to redesign infrastructure to move it farther away from the ecologically sensitive area.

He cautioned that if the New Democratic Party wins the Canadian election on Oct. 19 it is likely to order more detailed environmental assessments that could further delay the project.

The AltaCorp report said that of the 20 LNG proposals on the table in British Columbia, four have the best chance of proceeding — Pacific NorthWest, LNG Canada led by Royal Dutch Shell, WCC LNG co-owned by ExxonMobil and Imperial Oil, and a small joint venture backed by AltaGas.

A report by investment dealer Peters & Co. said there could be delays and cancellations involving projects, but it believes that LNG exports are likely to take place from the British Columbia coast.

“The coming 12 months will prove pivotal for LNG development on the Canadian West Coast,” the Calgary-based firm said.

“High capital costs, the required development of infrastructure, the extended regulatory approval process and weakness in Asian LNG prices increase the risk of deferral or cancellation of projects in the near term,” the 21-page study said.

Kitimat LNG ‘substantially started’

Peters & Co. said Kitimat LNG, co-owned by Chevron and Australia’s Woodside Petroleum, “has been substantially started” which means the project will not lose the environmental assessment certificate it received in 2006.

It said Pacific NorthWest appears to lead the British Columbia field, although it may not receive a federal environmental ruling until early 2016.

The firm also believes that Aurora LNG, led by Nexen (which is wholly owned by China’s CNOC Ltd.) with Japan’s INPEX and JPU as partners, remains in the running.

But even if only a handful of projects go ahead, Peters & Co. said that would bolster the operation of natural gas producers in British Columbia’s Montney formation and Alberta’s Deep basin.

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Top priority, little hope

Push by Canada’s socialist politicians to revive upgraders, refineries for value-added processing deemed uneconomic by industry

By GARY PARK
For Petroleum News

If Canadian voters opt for a second electoral upheaval of 2015 and follow Alberta’s stunning lead by handing power to the socialist New Democratic Party One thing is certain for the petroleum industry.

All bets are off.

The already fading hopes for domestic and export pipelines to deliver oil sands bitumen to markets in North America, Asia and Europe would likely be even shakier.

But, in what would be an about face for political parties that are invariably at cross-purposes with the oil and natural gas sector, the two NDP administrations could find themselves tacking one of the costliest, most intimidating challenges within the industry.

Push for upgraders, refineries

Both the Alberta and the federal NDP are certain they can extract better value from Canada’s natural resources and create jobs by rewarding those who establish upgraders (to convert raw bitumen into synthetic crude for refining into fuels) and conventional refineries.

Alberta Premier Rachel Notley is committed to developing a royalty structure that would keep more of the profits from refined products.

She said the 44-year Conservative party rule in Alberta had “squandered our wealth with a fire sale of our resources. We’ll stop the fire sale and start rewarding businesses that create upgrading and refining jobs here at home.”

The new Alberta government insists that the province’s “current royalty regime rewards extraction, rather than promoting value-added processing.”

It said a report commissioned by the Alberta Energy Department has concluded that upgrading bitumen in Alberta “results in approximately four times the value per barrel of bitumen processed.”

The government said that reviving four of the upgraders that were scrapped in 2008 would have helped create 4,000 permanent operations jobs and an additional 12,000 service, supply and maintenance jobs, while generating C$400 million a year in provincial corporate tax revenues.

But, in what would be an about face for political parties that are invariably at cross-purposes with the oil and natural gas sector, the two NDP administrations could find themselves tacking one of the costliest, most intimidating challenges within the industry.

Push by Canada’s socialist politicians to revive upgraders, refineries for value-added processing deemed uneconomic by industry

The obvious levers at the disposal of an NDP administration would be: 1) preferential tax treatment, even though Mulcair has insisted he will remove C$240 million a year in subsidies from the industry, 2) placing limits on exports of bitumen, which would put the government on a collision course with the North American Free Trade Agreement; and 3) direct government involvement in the refining sector.

Mulcair has hinted he wants to apply the model which has allowed Norway to “leverage its resources to create value-added jobs,” although that country is still only processing 300,000 barrels per day of the 1.8 million bpd of crude it produces, while Canada refines a far higher percentage of its production — 1.9 million bpd of 3 million bpd (with 1.2 million bpd of unprocessed bitumen currently being shipped to the United States).

Issue of industry support

What neither branch of the NDP — Alberta or federal — has explained is how it hopes to gain industry support to reverse a pullback from refining that has stretched over more than 30 years.

see ROTALY STRUCTURE page 9
A North West Upgrading facility near Edmonton is scheduled to start operations in two years, making it the first new refinery in Canada since 1984, while a North Dakota refinery that opened earlier this year was the first to be built in the U.S. since 1976 — reflecting the reluctance by companies to make massive investments in a volatile sector.

Playing in the big leagues is not for the faint of heart, as oil sands giant Suncor Energy and its French partner Total discovered two years ago.

They finally took the unprecedented, but not unexpected step of abandoning their CS$1.6 billion Voyageur upgrader after spending CS$3.5 billion on the initial construction phases, after deciding that the venture did not make economic sense and getting caught off balance by a dramatic shift in the North American crude market.

The upgrader, designed to process 200,000 bpd of bitumen, had long been presented as a key plank in Suncor’s plan to raise its production by 120 percent from 2004 to 550,000 bpd in 2016.

Mike Dunn, director, institutional research, with FirstEnergy Capital, said the decision was inevitable “because these projects don’t make money.”

North West has government support

Backstopped by the Alberta government, North West has been able to battle through headwinds, despite swallowing the usual dose of cost overruns which have raised its price tag by 50 percent to CS$8.5 billion and despite a delay of one year in its planned startup of commercial operations.

North West Chief Executive Officer Ian MacGregor has consistently argued that if Alberta wants to build schools and hospitals and infrastructure and stem the flow of taxes, jobs and economic activity to the United States it needs an expanded refining business.

Judith Dwarkin, chief energy economist at ITG Investment Research, refuses to accept the idea that spending billions of dollars to increase refining capacity in Canada will be an economic benefit, noting that the Alberta government has been forced to supply 37,500 bpd of its own marketable bitumen and pay fees for processing to keep North West alive.

She argued that rather than being a commercially based venture, the upgrader has required an infusion of public funds.

Ted Morton, a former Alberta finance minister and now a senior fellow at the University of Calgary School of Public Policy, has described North West as a “boondoggle with high risks for Alberta taxpayers,” costing them CS$2 billion.

Refineries proposed for BC coast

With other proposed upgraders and refineries for Alberta now on the shelf, the only slender hope for advancing where Alberta has faltered rests with three refineries that have been proposed for the British Columbia coast, mostly tied to the wavering chances of accessing Asian markets with oil sands production.

Two of them — Pacific Future Energy and Kitimat — require pipelines from Alberta (with Pacific Future also exploring the possibility of moving the crude by rail) to the plants on the British Columbia coast, where the bitumen would be converted into refined products that the proponents claim would be more acceptable than loading tankers with raw bitumen.

The third scheme, Eagle Spirit Energy, would refine bitumen in either Alberta or northeastern British Columbia before shipping the products to the Pacific Coast for export.

Among the obstacles to be overcome — securing financial backers and Asian customers, gaining support from First Nations and environmentalists and obtaining regulatory approval — there has been no enthusiasm in Asia for giving preference to Canadian refineries.

Almost from the initial announcement, the proposed CS$25 billion, 550,000 bpd Kitimat facility was scorned, with Michael Ervin, principal of MJ Ervin & Associates, suggesting the chances of moving to the construction phase were almost nil.

“It makes no sense to build a refinery of that size on the West Coast, especially when you consider that China is adding refineries that will be able to process 3 million bpd of crude (by 2018),” he said.

Ervin said the price differential between the price of crude and the petroleum products extracted from it will never work, even before capital and operating costs were included.

Even if opponents succeeding in scuttling Enbridge’s Northern Gateway pipeline plans to export 525,000 bpd through Kitimat, he said there are enough other options to move crude bitumen to market to render plans for new refineries in Canada suspect.

And that assessment could be the eventual downfall for any NDP governments that attempt to use the public purse to entice industrial partners to take a path that others have long since rejected.

Contact Gary Park through publisher@petroleumnews.com

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**Ultimate barrier economics**

Ian Anderson, president of Kinder Morgan Canada, which plans to triple capacity on its Trans Mountain pipeline from the oil sands to the Pacific Coast, also points to the ultimate barrier.

“If it were economic to have a new refinery, I assure you there would be one,” he said.

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**Refineries proposed for BC coast**

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“It makes no sense to build a refinery of that size on the West Coast, especially when you consider that China is adding refineries that will be able to process 3 million bpd of crude (by 2018),” he said.

Ervin said the price differential between the price of crude and the petroleum products extracted from it will never work, even before capital and operating costs were included.

Even if opponents succeeding in scuttling Enbridge’s Northern Gateway pipeline plans to export 525,000 bpd through Kitimat, he said there are enough other options to move crude bitumen to market to render plans for new refineries in Canada suspect.

And that assessment could be the eventual downfall for any NDP governments that attempt to use the public purse to entice industrial partners to take a path that others have long since rejected.

Contact Gary Park through publisher@petroleumnews.com
Great Bear planning more exploration

Deciding on testing of Alkaid well; going to conduct a fifth 3-D seismic survey in leased acreage south of Prudhoe and Kuparuk

By ALAN BAILEY
Petroleum News

Great Bear Petroleum Operating LLC is currently evaluating opportunities to test the Alkaid No. 1 exploration well that it drilled on the North Slope last winter. Patrick Galvin, Great Bear executive vice president, told the Alaska Oil and Gas Congress on Sept. 23. And the company plans to shoot a fifth 3-D seismic survey in its North Slope acreage in the coming winter, thus establishing an extremely comprehensive 3-D dataset across the company’s leases, Galvin said.

Great Bear’s current plan of operations envisages the drilling of three exploration wells, including the Alkaid well, all in the same general area to the west of the Dalton Highway, south of Prudhoe Bay. But because of operational difficulties, the company was only able to drill one well, Great Bear purchased leases in an area where the source rocks are believed to have generated oil, with that oil understood to have migrated north into the reservoir rocks of oil fields such as Prudhoe Bay and Kuparuk River.

the Alkaid well, during the part winter, and had run out of time to conduct testing after completing the well, Galvin said. In particular, the flooding of the Dalton Highway during the winter created logistical problems for the drilling operation, especially given the highway closure between the drilling site and Deadhorse, the source of supplies for field operations, he said.

Evolving strategy

Reflecting on what Great Bear has achieved since purchasing more than 500,000 acres in state leases in 2010 across a broad swath of the central North Slope, Galvin said that the company’s exploration strategy has evolved as it has discovered more about its lease holdings.

Initially the company had embarked on a program designed to exploit the possibility of extracting oil directly from the North Slope’s prolific oil source rocks, using techniques such as horizontal drilling and hydraulic fracturing, along the lines of shale oil development that has been carried out with great success in the Lower 48. The three primary source rock intervals on the North Slope are stacked one above the other, thus opening up the possibility of investigating all three at the same location, Galvin said.

In the summer and fall of 2012 Great Bear drilled two wells off the Dalton Highway, having identified six potential well locations with year-round access near the highway. The company acquired about 650 linear feet of rock core from the source rocks penetrated by these wells, Galvin said.

The company also embarked on a major program of 3-D seismic surveying across its acreage, for the identification of optimum places to drill. But that seismic enabled the company to discover conventional drilling prospects within the major rock intervals of the North Slope petroleum system, Galvin said. And, as thinking about so-called conventional and unconventional oil development has evolved in the oil industry, Great Bear’s view of its exploration opportunities has morphed into seeing more of a spectrum of opportunities, ranging from pure source rock development at one extreme to, on the other hand, the development of traditional oil reservoirs.

Oil migration

Great Bear purchased leases in an area where the source rocks are believed to have generated oil, with that oil understood to have migrated north into the reservoir rocks of oil fields such as Prudhoe Bay and Kuparuk River. Under Great Bear’s exploration concept, much of the generated oil would have remained in the oil source rocks, while some of the oil would have become trapped in various underground rock structures in the process of migrating north. Great Bear is using its 3-D seismic data to find those potential trapping structures, thus enabling the company to drill in search of oil in the structures as well as seeking oil left in the source rock intervals, Galvin explained.

In addition to conducting seismic surveys, Great Bear has carried out LIDAR — light detection and ranging — surveys in its acreage, to develop detailed topographic maps for the planning of surface developments such as the construction of ice roads. The three exploration wells in Great Bear’s current operations plan all require winter drilling, with site access by ice road.

Exploration challenges

Reflecting on the challenges facing oil explorers working on the North Slope, Galvin commented on the general shortage of data in areas outside the existing oil fields. For example, no previous wells had penetrated the Shublik, a key oil source rock in Great Bear’s exploration acreage, he said. The annual winter exploration season, which depends on the freezing of the ground and on the snow cover, is short and unpredictable in length — it is difficult to predict when drilling can start and how many wells can be drilled in a season. There can also be significant permitting challenges — Great Bear’s relatively simple 2015 winter drilling operation required 19 permits, Galvin explained.

And, especially given a lack of competition within the industry service sector and a tendency to execute one-off exploration drilling programs, the costs of conducting exploration are high. Great Bear plans to address these challenges by completing the 3-D seismic coverage across the company’s exploration acreage, expanding its inventory of...
Drilling results in robust Coffee resource

Kaminak Gold Corp. Sept. 23 reported that its recently completed 70,000-meter infill drill program nearly quadrupled the indicated resource tonnage at its Coffee gold project in Yukon Territory. Coffee now hosts 52.4 million metric tons of indicated resource averaging 1.68 grams per metric ton (2.82 million ounces) gold. In addition to the nearly four-fold increase in tonnage, the grade of the indicated resource has increased by eight percent. Coffee also hosts 42.7 million metric tons of inferred resource averaging 1.52 g/t (2.09 million oz) gold, representing a 12 percent increase in grade for this category. Kaminak said it remains on-track to complete a feasibility study for Coffee in the first quarter of 2016. "Coffee remains a strong project and one of the few development track gold projects located in Canada that can deliver sizeable, high-margin production in excess of 160,000 ounces per annum in the current gold price environment," said Kaminak CEO Eira Thomas.

Pretium taps new zones near Valley of the Kings

Pretium Resources Inc. Sept. 21 reported initial results from exploration drilling at the Flow Dome Zone, located east of the Valley of the Kings deposit at its Brucejack Project in Northwestern British Columbia. Hole SU-654 cut 1.5 meters of 16.9 grams of gold per metric ton at a depth of 877.5 meters, followed immediately by a 33-meter intercept of 0.55 g/t gold; hole SU-657 cut 21.87 g/t gold over nine meters, from a depth of 932 meters; and hole SU-658 cut 21.87 g/t gold over nine meters, from a depth of 778.65 meters, immediately followed by 0.26 g/t gold over 90 meters. Hole 657 was drilled about 650 meters east of the Valley of the Kings, and holes 654 and 658 are about 1,000 meters east of the high-grade gold deposit. Pretium said these high-grade intersections along with long intervals of low-grade mineralization suggest a new stockwork zone or an extension of the Coffee gold footprint, with channel samples grading up to 1.41 g/t gold over 7 meters by 2.4 kilometers. Significant channel sample results included 7 meters at 1.41 g/t gold over 2.4 kilometers. Anomalous gold results 400 meters to the west and 480 parts-per-billion gold. More widely spaced soil sample results outlined a 400-meter-by-1,000-meter soil anomaly with values above the 85th percentile, ranging from 13 to 84 parts-per-billion gold. The work defined a zone of interest measuring 2.4 kilometers by 0.65 kilometers. Significant channel sample results from five trenches included 7 meters at 1.41 g/t gold over 2.4 kilometers. Significant channel sample results from five trenches included 7 meters at 1.41 g/t gold over 2.4 kilometers. The program confirmed and expanded the known resource at Bermingham silver deposit.

Alexco drills bonanza results at Bermingham silver deposit

SONORO METALS CORP. and NORTHERN EMPIRE RESOURCES CORP. announced results from their phase-1 exploration program on the Hilltop project in the Richardson District. The program confirmed and expanded the known gold footprint, with channel samples grading up to 19.45 grams per metric ton gold and rock grab samples grading as high as 26.55 g/t gold. The work included collecting 61 confirmation soil samples, 336 expansion soil samples, 228 rock samples, and 213 meters of trenching. Soil sample results outlined a zone of defined anomalous gold results 400 meters to the west and defined a zone of interest measuring 2.4 kilometers by 2.4 kilometers. Significant channel sample results from five trenches included 7 meters at 1.41 g/t gold over 2.4 kilometers. Significant channel sample results from five trenches included 7 meters at 1.41 g/t gold over 2.4 kilometers.
continued from page 11

FREEMAN

g/t gold in trench 3 and 10 meters at 2.29 g/t gold in trench 5, with the best 1 meter sample grading 19.45 g/t gold. Rock grab samples from trenches returned values as high as 26.55 g/t gold. Gold was strongly correlated with arsenic, bismuth and tellurium. Other anomalous associated elements included lead, antimony and tungsten, suggesting a possible intrusive-hosted affinity similar to other gold prospects in the Tintina Gold Belt of Alaska — Yukon. Results of the subsequently approved phase-2 work program are pending.

CONTANGO ORE INC. announced today that its joint venture with a subsidiary of ROYAL GOLD INC. has approved a phase-2 exploration program at its Tetlin gold project near Tok. The project is located on lands leased from Tetlin Village. Phase 1 was completed in August and consisted of 7,500 meters of new core drilling, primarily on locations outside of the previously discovered Peak gold deposit. Phase 2 will provide up to 6,000 meters of core drilling to follow up results from phase 1. This second phase of work, budgeted at US$4 million, will bring 2015 expenditures to about $9 million. At a 0.5 grams of gold per metric ton cutoff, previously published indicated resources include 5.97 million metric tons grading 3.46 g/t gold, 11.0 g/t silver and 0.25 percent copper. Using the same cutoff, inferred resources include 3.85 million metric tons grading 2.07 g/t gold, 14.28 g/t silver and 0.25 percent copper.

Alaska Range

BRAZIL RESOURCES INC. announced an updated mineral resource estimate for its 100 percent-owned Whistler gold-copper project. The Whistler deposit hosts an indicated resource of 79.2 million metric tons grading 0.40 g/t gold, 1.75 g/t silver, 0.15 percent copper. The deposit contains an inferred resource of 26.5 million metric tons grading 0.30 g/t gold, 1.65 g/t silver, 0.15 percent copper. Significant results include 0.8 meters at 5.0 percent copper from 134.6, 2.4 meters at 3.7 percent copper from 159.8 meters and 0.4 meters at 13.6 percent copper from 127.4 meters. Significant results also include 14.1 meters at 9.9 percent copper from 134.6, 2.4 meters at 3.7 percent copper from 159.8 meters and 0.4 meters at 13.6 percent copper from 167.4 meters in CD15-14. The mineralization in hole 14 is thought to be part of a new, previously undiscovered, lense of mineralization. A phase two 4,000-meter drilling program has been approved and will focus on first-pass exploration of five very-high-priority IP anomalies – the Lense 2, Lense 7, Lense 6 East, Lense 4 West, Caribou South and Lense 7/8 targets. Additional drill results are pending.

Northern Alaska

GOLDRICH MINING CO. announced additional diamond core drilling results from its Caribou Dome copper project in the Valdez Creek District. Drill holes CD15-12 and CD15-13 were confirmatory holes drilled to evaluate shallow mineralization at Lenses 5 and 6. Significant results include 8.9 meters at 0.5 percent copper from 33.6 meters in CD15-12 and 3.3 meters at 10.1 percent copper from 5.9 meters and an additional 10.6 meters at 5.4 percent copper starting at 30.6 meters in hole CD15-13. Hole CD15-11 was a 40-meter step-out of previously drilled holes designed to test a 250-meter-long corridor where outcropping mineralization coincides with a strong induced polarization geophysical anomaly at Lense 2. Significant results include 0.3 meters at 3.0 percent copper from 100.7 meters in CD15-11. The company also reported thick, high-grade mineralization in the first holes drilled to evaluate the Lense 7/8 target. Significant results include 0.9 meters at 12.4 percent copper from 128.7 meters, 14.1 meters at 9.9 percent copper from 134.6, 2.4 meters at 3.7 percent copper from 159.8 meters and 0.4 meters at 13.6 percent copper from 167.4 meters in CD15-14. The mineralization in hole 14 is thought to be part of a new, previously undiscovered lense of mineralization. The second phase of 4,000-meter drilling program has been approved and will focus on first-pass exploration of five very-high-priority IP anomalies – the Lense 2, Lense 6 East, Lense 4 West, Caribou South and Lense 7/8 targets. Additional drill results are pending.

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NORTH OF 60 MINING NEWS • WEEK OF SEPTEMBER 27, 2015

Coventry Resources Inc. announced additional diamond core drilling results from its Caribou Dome copper project in the Valdez Creek District. Drill holes CD15-12 and CD15-13 were confirmatory holes drilled to evaluate shallow mineralization at Lenses 5 and 6. Significant results include 8.9 meters at 0.5 percent copper from 33.6 meters in CD15-12 and 3.3 meters at 10.1 percent copper from 5.9 meters and an additional 10.6 meters at 5.4 percent copper starting at 30.6 meters in hole CD15-13. Hole CD15-11 was a 40-meter step-out of previously drilled holes designed to test a 250-meter-long corridor where outcropping mineralization coincides with a strong induced polarization geophysical anomaly at Lense 2. Significant results include 0.3 meters at 3.0 percent copper from 100.7 meters in CD15-11. The company also reported thick, high-grade mineralization in the first holes drilled to evaluate the Lense 7/8 target. Significant results include 0.9 meters at 12.4 percent copper from 128.7 meters, 14.1 meters at 9.9 percent copper from 134.6, 2.4 meters at 3.7 percent copper from 159.8 meters and 0.4 meters at 13.6 percent copper from 167.4 meters in CD15-14. The mineralization in hole 14 is thought to be part of a new, previously undiscovered lense of mineralization. A phase two 4,000-meter drilling program has been approved and will focus on first-pass exploration of five very-high-priority IP anomalies – the Lense 2, Lense 6 East, Lense 4 West, Caribou South and Lense 7/8 targets. Additional drill results are pending.

Northern Alaska

GOLDRICH MINING CO. announced that placer gold production commenced at the Little Squaw placer deposit at its Chandalar gold project in the Brooks Range. Updates to plant and facilities were completed by the company and its partner in late July and production began in early August, continuing through Sept. 12. Average daily production rose to about 103 ounces per day of fine gold for the
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Contact: Angie Goshon, Manager, Community and Government Relations
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Usibelli Coal Mine is headquartered in Healy, Alaska and has 700 million tons of coal reserves. UCM produces 1 to 2 million tons of sub-bituminous coal each year.

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**NORTHERN NEIGHBORS**

Pretium also said it has closed a US$540 million construction financing package with the Ocean Mine Finance Group and Blackstone Tactical Opportunities. The company was advanced US$340 million at closing, which will be used to continue development of the Bracejack Mine. First production at this high-grade underground gold mine is targeted for 2017.

Hyland drilling confirms Banyan hypothesis

Banyan Gold Corp. Sept. 17 said results from drilling at its Hyland Gold project in eastern Yukon Territory confirm its hypothesis that the property hosts carbonatite-hosted gold mineralization in a previously unidentified gold-bearing structural zone in the western part of the property, an area locally known as North Pole Hill. High-grade intersections include 127.9 g/t gold, 57.6 g/t silver and 2.78 percent copper over 0.35 meters apparent width. Follow-up drilling was conducted in 2014 but no new results have been released. Additional drilling targets have been outlined within the area of the old copper-palladium mine workings, particularly at depth below previous mine workings.

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**FREEMAN**

production season. The 2015 production season was 35 days but the normal production season is about 107 days, subject to weather. A total of roughly 4,400 ounces of alluvial gold, equivalent to some 3,600 ounces of gold, were produced. To date the partners have completed about 15,000 feet of drilling at Little Square and outlined 10.5 million cubic yards of mineralized material at an average head grade of 0.025 ounces of gold per cubic yard for an estimated total of roughly 250,000 contained ounces.

Southwest Alaska

PURE NICKEL, Inc. has indicated that it is seeking to joint venture or sell its 100 percent-owned Salt Chuck copper-palladium project on Prince of Wales Island. The property covers a northeast-trending mafic-ultramafic igneous complex covering a seven by 1.6-kilometer area. The mafic-ultramafic complex occurs in a folded succession of Paleozoic sedimentary and volcanic rocks and Paleozoic to Mesozoic intrusive rocks, which are part of the Alexander Terrane. Reported production from 1916 through 1941 was 296,000 metric tons of copper sulfide ore grading 0.95 percent copper, 2.0 g/t palladium, 1.1 g/t gold and 5.7 g/t silver with recovery of 2.81 million kilograms of copper and 9,000 kilograms of palladium with credits in gold and silver. There has been no production from the complex since 1941. In 2012 the company completed a six-hole drilling program that encountered high-grade gold mineralization in a previously unidentified gold-bearing structural zone in the western part of the property, an area locally known as North Pole Hill. High-grade intersections include 127.9 g/t gold, 57.6 g/t silver and 2.78 percent copper over 0.35 meters apparent width. Follow-up drilling was conducted in 2014 but no new results have been released. Additional drilling targets have been outlined within the area of the old copper-palladium mine workings, particularly at depth below previous mine workings.

Alexco cuts bananza silver at Birmingham

Alexco Resource Corp. Sept. 17 reported results from its 2015 drilling program at the Birmingham deposit in its Keno Hill Silver District project in Yukon Territory. Significant true-width intercepts from this 2,595-meter program include: 4.98 meters grading 7,346 grams per metric ton silver; 4.76 meters grading 2,357 g/t silver; and 2.39 meters of 3,774 g/t silver. Together with the high-grade discovery intercept from the 2014 drill program – 6.39 meters grading 5,667 g/t silver, Alexco said the 2015 drilling has now identified a high-grade silver and gold-bearing zone over at least 140 meters down-plunge across a width of about 40 meters. The zone averages 3.7 meters thickness and remains open both up-dip and down-dip. Alexco President and CEO Clent Nunn said this discovery “may be a game changer for the future of Keno Hill.”

Prairie Creek M&I resources get 32% upgrade

Canadian Zinc Corp. Sept. 17 reported results from its 2015 drilling program at the Birmingham deposit in its Keno Hill Silver District project in Yukon Territory. Incorporating the results from 5,484 meters of drilling completed in 21 holes this year, the company said the tonnage of the measured and indicated resources at the mine project increased 32 percent compared with a resource calculation completed in March. Prairie Creek now hosts 8.7 million metric tons of measured and indicated resources, averaging 9.5 percent zinc, 8.9 percent lead and 136 g/t silver. Additionally, the Prairie Creek project hosts 7.0 million metric tons of inferred resource, averaging 11.3 percent zinc, 7.7 percent lead and 166 g/t silver. The expanded resource will form the basis for an optimized mine plan and upgraded mineral reserve.
Weekly US rig count falls by 6 to 842

Oilfield services company Baker Hughes Inc. says the number of rigs drilling for oil and natural gas in the U.S. the week ending Sept. 18 declined by six to 842. Houston-based Baker Hughes said 644 rigs were drilling for oil and 198 for natural gas. A year ago, with oil prices about double the prices now, 1,931 rigs were active.

Among major oil- and gas-producing states, Colorado, New Mexico, Ohio and Utah each gained one rig. Louisiana and North Dakota lost three rigs apiece, Pennsylvania declined by two and Kansas and Texas were down one each. Alaska, Arkansas, California, Oklahoma, West Virginia and Wyoming all were unchanged.


—ASSOCIATED PRESS

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GREAT BEAR

potential high-impact prospects and then screening and prioritizing the prospects, Galvin said. The company anticipates executing a multi-well exploration program that will achieve economic efficiency by securing a large amount of work over multiple years, he said. Ultimately there could be a number of development projects within the Great Bear acreage, he said.

State can help

Given the difficult exploration environment, the state can act as a catalyst for accelerating exploration and facilitating moves towards the execution of development projects, Galvin said. With a need for more well and exploration data, the state’s exploration incentive program has proved to be of significant assistance in easing the amount of capital needed at the high-risk end of the exploration and development life cycle. Commenting that the value of state participation in that high-risk component of the investment cycle cannot be overstated, especially given the challenges of new exploration in an area with little existing data and no support infrastructure, Galvin said that Great Bear is particularly anxious that the state should extend the credit program that is currently set to expire in June 2016.

The state can also improve the coordination of the permitting process, eliminating some redundancy in the process, Galvin said. And the state needs to engage with the U.S. Army Corps of Engineers, to try to establish a reasonable approach to wetlands dredge and fill permitting, a permitting process that can trigger the need for an environmental impact statement and, hence, lead to significant development timescale uncertainty, he said.

With the exploration season on the North Slope tending to shorten over the years, additional support infrastructure will be critical in the future, Galvin said. Appropriate infrastructure in key exploration areas could minimize the need to construct ice roads over long distances and would help reduce the uncertainty over the opening dates for exploration seasons, he said. 

Contact: Alan Bailey at ability@gettingsomes.com
continued from page 1

INLET CREDITS

Legislature next year, and the working group is listening to affected parties in advance of the 2016 session.

Spending money to make money

John Barnes of Hilcorp told legislators the state’s investment tax credits demonstrate that you have to spend money before you get money. Since Jan. 1, 2012, when Hilcorp closed on Chevron’s Cook Inlet properties, the company has spent about a billion dollars in Cook Inlet and produced 60 million cubic feet per day; today that production is about 140 million cubic feet per day.

Changed playing field

Barnes said the investment credits changed the playing field in the inlet. The inlet was dying, he said, with warnings we could run out of natural gas and have to import it to meet local needs. Companies had essentially stopped drilling, and Barnes said it was amazing how fast Cook Inlet production declined, once people stopped drilling. Major producers — Chevron and Marathon — were looking elsewhere, with Cook Inlet no longer deemed crucial to their business, and were in something of a caretaker mode, he said.

With investment credits, companies came into the inlet, acquired other companies and leases and drilled wells, Barnes said. Hilcorp was attracted to Alaska because the company looks for places it can acquire legacy fields with potential at a reasonable price — and acquire those fields directly from major producers. That’s important, Barnes said, because if others had bought the fields from the majors they would have been worked hard before Hilcorp acquired them.

Since it came to Alaska, Hilcorp has drilled some 55 wells onshore, he said. Asked if the state’s tax credits were more generous than they needed to be, Barnes said he really didn’t know. When Hilcorp looked at coming in there was a tax structure in place, he said, and the company looked at the value of the opportunity, which included good investment tax credits.

He said the cost of operations, product price and tax structure are linked, and cost of operations is the only area Hilcorp can control.

As for the suspension in payment of $200 million in tax credits, Barnes said that just puts uncertainty into the equation. Asked if a change in the credit system is a change to the overall tax system, Barnes said absolutely, that any change in the tax climate as you try to make long-term financial decisions has an impact.

The exploration side

John Hendrix, general manager of Apache in Alaska, said Apache is exploring, which poses risks and requires investment patience, and the right timing, which means stability is important.

He referred to the credits passed for Cook Inlet in 2010 as rebates, because, he said, you have to spend money to get money back.

Apache purchased existing leases in 2010 and acquired significant acreage in 2011. The company has since been shooting seismic, with 1,100 miles of data acquired from 2011 through 2014. And yes, he said, the tax credits helped.

He also said the seismic Apache has shot is the state’s data and provides the state and Apache and its partners the ability to have a subsurface road to resources. The nodal technology Apache brought to the inlet enabled the company to shoot seismic and tie in marine and onshore seismic. This is the first seismic shot in the inlet that ties onshore and offshore together, he said.

Work done so far has enabled Apache to generate a few prospects he said, adding that the company is waiting on permits right now.

Seismic work

Hendrix said seismic doesn’t tell you there’s oil. You also have to look at correlations with existing wells and at outcrops, which Apache is doing.

He said predictive regional reservoir maps have been completed for the Hendlock and Tyonek formations and that Beluga and Sterling evaluations are in progress.

He said Apache still hasn’t received a permit it applied for last fall for a road and the oil price continues to drop. Hendrix warned legislators about doing a bait and switch, changing the rules from...
continued from page 16

INLET CREDITS

when the company did a large lease pur-
chase.

He said the challenge now is cranking out an economic model, and since Apache isn’t solely an Alaska investor, the com-
pany will invest where there is a stable situa-
tion.

We need to have tax credits, he said, but also said he didn’t think it was right for someone to apply for tax credits if they haven’t paid invoices. People should be here to drill for oil, not to drill for tax credits, he said.

Hendrix said if tax credits went away this year he thought Apache would be looking very hard at investing at all; a change over three years would give the company a chance to plan, he said.

He characterized exploration as building wealth for Alaskans by finding resources; production, he said, brings income but doesn’t add wealth.

BlueCrest: Time needed

J. Benjamin Johnson of BlueCrest Energy said the Cook Inlet tax credit pro-
gram has been effective, but it will take time to bring on more natural gas resources or there will be a crisis in the future.

Southcentral doesn’t have a way to bring natural gas in, he said, although there is an opportunity to get some gas out. The ability to handle excess gas sup-
ply is important because it can’t be turned off and on immediately, he said.

If tax credits were eliminated immedi-
ately there would be a problem for BlueCrest, which has committed a lot of money, and without credits there would be a shortfall in the company’s ability to handle excess gas supply, he said. Johnson said that discoveries do not guarantee production and noted that there have been some good discoveries in Cook Inlet, but not all have been developed.

Long time to breakeven

Johnson noted that there is a long cash-
flow cycle for discoveries, with money pumped in for exploration and then for development. Cash flow is negative, he said, until production begins, but breakeven doesn’t occur until the compa-
nymoney is about to bring up a big drilling rig. First project is projected for April of next year. Crude oil from Cosmopolitan will go to Tesoro, which is importing about two-thirds of the crude oil it processes.

Johnson said without tax credits there would already be a significant natural gas shortage in Cook Inlet. And, he said, new gas needs to be developed now to prepare for the future.

Tax credits were crucial to BlueCrest, he said, and with the current uncertainty about credits development of the shallow natural gas at Cosmopolitan is on hold.

The Spartan 151 is the only jack-up rig in Cook Inlet and is in Seward, but if gas drilling at Cosmopolitan does not begin in 2016, the rig will leave the inlet, he said.

And BlueCrest can’t commit to natural gas development unless it has existing tax credits or a reasonable alternative, he said. Commitments were made by folks like BlueCrest based on tax credits; if there are changes, there should be reason-
able time to allow ongoing projects like Cosmopolitan to adjust.

The company has no confidence in what will happen next year, he said, and has decisions it needs to make before the end of the year.

Asked about the possibility that exist-
ing credits could be continued and pro-
duction taxes increased, Johnson said BlueCrest understands that production taxes may need to rise and has factored that into the company’s future plans. There is currently no production tax on Cook Inlet crude oil.

No Furie without tax credits

Bruce Webb of Furie Operating Alaska told legislators that the company wouldn’t be here without the tax credit program; they were a selling point for European investors in the project, he said.

Furie couldn’t have raised the first 100 million euros without the tax credits because those credits meant investment was backed by the state.

It’s been a bumpy road for Furie, he said, which had raised initial capital and started to talk to utilities when Hilcorp swallowed the natural gas utility market in 2012, leaving the company with what Webb called a tough decision on whether to stay and hope that the gas utility mar-
ket opened up.

He said Furie is now on the cuspt: It has development, but it’s not completely paid for and its first natural gas contract doesn’t start until April.

The company had to take a $200 mil-
lion loan, which was pretty expensive money, and requires sale of 10 million cubic feet a year just for debt service. The contract it has with Homer Electric Association is some 4.4 million cubic feet a year, so for the first few years the company will be operating at a deficit, he said.

Right now the company has commit-
ted tax credits for the next several years to help finance future wells, Webb said. The company was in discussion with finan-
ciers when the $200 million in credit pay-
ments was stalled, which impacted financing discussions. Furie wouldn’t be here without the tax credits, he said. If those credits go away the company is stubborn enough to stay and work through it, but without credits future development would be decelerated and the company’s breakeven would move farther down the road.

—KRISTEN NELSON

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He now has to come to the Legislature and un-convince us of what we became convinced of in the prior administration. A lot of legislators were in the same position I was in, very skeptical at the end of the day becoming convinced it was the right thing to do by bringing in TransCanada. Gov. Walker now needs to convince us we made the wrong decision.

Petroleum News: What concerns, if any, do you have with this buyout plan?

Hawker: My current concern is that the Legislature has received no analytic information on which to base a judgment. Right now it’s just a popularity poll. Do you like TransCanada or don’t you. The administration has provided us nothing which to base a sound economic judgment. We heard in the quarterly briefing that the administration has had a secret study conducted by Black & Veatch that gave them their reasons for wanting out of the transaction. But that study could not be made available. I think that is problematic. I think the governor is going to have to find a way to remove the veil of confidentiality of that study so the Legislature and the public have a basis for the decision.

Petroleum News: Why would this be considered confidential? It’s easy to understand when it comes to the AKLNG partners.

Hawker: I asked that question in the quarterly briefing. The response I received was that in order to perform that analysis, they had to rely on and incorporate information that was proprietary to TransCanada. I personally question that conclusion because the analysis should be performed on all of the publicly available information and performing economic analysis as to whether the economics inherent in the MOU we are working under are valid, are sound, then compare those economics with the economics of going at it alone, which involves nothing from TransCanada, so I do not understand why this information is confidential at the moment.

Petroleum News: Also, it looks as though Walker’s newly minted consultant Rigdon Boykin is getting a stronger role. Are you comfortable with this at $100,000 a month?

Hawker: Actually, it’s $120,000 a month. The Legislature was formally informed for the very first time last Wednesday that Mr. Boykin was the lead in all project negotiations and activities. The response I received for the very first time last month. The Legislature was formally informed for the very first time last Wednesday that Mr. Boykin was the lead in all project negotiations and activities. The response I received was that in order to perform the duties that are statutorially imposed on those agencies? A third party consultant has none of those constraints, and that’s, I think, problematic. I think the governor is going to have to find a way to remove the veil of confidentiality of that study so the Legislature and the public have a basis for the decision.

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At that meeting, I raised a question and concern — and I think it remains valid — and that is, is it right and best for the state of Alaska to have a third party in charge of these critical negotiations and a third party who is not accountable to the citizens of the state of Alaska through either being elected to office or being a commissioner who is appointed by the governor, confirmed by the Legislature and statutorially obligated to support the state’s constitution and perform the duties that are statutorily imposed on those agencies? A third-party consultant has none of those constraints, and that’s, I think, problematic right now.

Petroleum News: So would you...
HAWKER Q&A

rather have this point person be some-
one from say, AGDC?

Hawker: When the previous adminis-
tration proposed SB 138 and the
Legislature ultimately passed it, the con-
clusion was to vest the commissioners of
Natural Resources and Revenue very
specific and strong responsibilities for
project management and execution. The
approach taken with Mr. Boykin has
minimized that participation and trans-
ferred those responsibilities to this third-
party contractor. Also AGDC, through
HB 4 a number of years ago that I basi-
cally sponsored and wrote, has many
responsibilities. AGDC has been made,
as necessary, a very powerful organiza-
tion, but AGDC was never given the
authority to negotiate on behalf of the
Department of Natural Resources, the
regulator, the Department of Revenue,
the tax collector, or the Department of
Law. AGDC was created to work with
those organizations and be an entity to
have very strong and clear powers to
build a project. We made it very clear —
we were not transferring that constitu-
tional authority from the state agencies
where we continue to vest that authority
again for resource management, resource
regulation.

Petroleum News: So where would you
like to see the lead negotiation come
from. A chief of staff? DNR? Revenue? A
collaboration?

Hawker: What I would do myself or
what I would want to see is really not a
relevant question because the public has
elected Gov. Walker, has told him they
want him to pursue this his way and he
is doing the right thing by that. He is
pursuing this project the right way. As a
legislator, what I want to see is success. I
want to see his people doing it his way:
bring a project to the Legislature that is
viable, that we have a means of financ-
ing, that we have ready, willing and able
to execute.

Petroleum News: That meeting in
Palmer was a six-hour hearing that went
into the morning the next day. What was
your take on that meeting?

Hawker: In the six-hour hearing that
ended about 1:30 in the morning, we
covered the entire agenda. I think the
meeting got off to a rough start with the
administration’s very strong indicting
statements with the industry’s lack of
progress. I think the administration
thought that was going to turn the
Legislature against the industry players
who were there. It kind of backfired. I
don’t think we took that tone very well
because we do understand that schedule-
driven projects are prone to failure. We
don’t want a schedule-driven project. We
want to talk about the merits. These are
complex, difficult negotiations and can
be expected to take a long time to
resolve.

Petroleum News: What do you think
brought you around to a dialogue and an
update from the administration?

Hawker: Every time one meets and
every discussion is progress in the dia-
logue. It was very important for the
Legislature to get an understanding from
the administration of who is in charge,
who is discussing negotiations, how are
they fulfilling the expectations we had
under SB 138. That was part of the dia-
logue.

We were also able to listen to the
individual producers and ask them about
their role in these negotiations. We were
able to get a much more clear under-
standing of just who is in fact negotiat-
ing on behalf of the state of Alaska. We
were able to get some clarity of what
will not be discussed in the coming spe-
cial session, specifically that the admin-
istration is not willing to introduce a
constitutional amendment until such time
as they have a completely papered proj-
ect to introduce along with it. That was
an important question for us so we can
plan what we need to plan for in a full
special session.

We got clarity from the administration
on TransCanada. And I think it’s the first
time it’s been said on the record that
they want out of the TransCanada
arrangement. I don’t think that’s ever
been officially on the record and here we
are less than a month from a special ses-
jion. We needed to force some clarity
from the administration and we got that.

Petroleum News: As LB&A chair, do
you have any plans for assisting the
Legislature in understanding what’s
ahead, particularly with AK LNG, by hire-
ing consultants?

Hawker: Absolutely. The Legislative
Budget & Audit Committee is the leg-
islative entity who is provided the neces-
sary budgetary authority to engage con-
sultants in the Legislature in all of our
activities. We’ve got education consult-
ants on board. We’ve got Medicaid con-
sultants on board. We currently have
consultants on board that supported the
production tax debates and the AK LNG
development to the state, and that’s ana-
lytica. They have truly provided out-
see HAWKER Q&A page 21

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**GCI launches fastest internet in Anchorage neighborhood**

Residents of the Anchorage neighborhood of Rogers Park can now surf the web at record speeds as General Communication Inc. has launched its 1-gig Internet service. GCI President and CEO Ron Duncan said 8 percent of GCI’s consumer subscribers across the state have signed up in advance for the 1-gig service, about 8,000 customers. The company plans to expand the service to include the Railbelt and Southeast-Alaska, which is expected to cost up to $25 million.

“It’s the fastest Internet available in Alaska and, on a consumer basis, anywhere in the country,” Duncan said.

The service is available only to GCI customers and will only work on the latest smartphones, computers and other devices. Routers older than one year will not be able to run the network. Also, GCI is allowing customers to download at high speeds, but data limits are still set. Rivel telecommunications company Alaska Communications only offers 1-gig service to business customers, but does not have data limits, according to ACS spokeswoman Hannah Blankenship. The company has no plans to move into the high-speed consumer market.

**Global Geophysical announces key leadership change**

Global Geophysical Inc. announced that Richard White has retired as president and CEO and as a member of the board of directors after nearly three years of service to the company. The board has selected Ross Peebles as interim CEO, effective immediately.

“I have complete confidence and trust that Ross will continue to place the company in the best position to fully realize its potential by capitalizing on our unique technology and the diverse and extensive experience of our employees,” said White. Prior to this promotion, Peebles was senior vice president and chief operations officer overseeing Global’s North America, Latin America and Eastern Hemisphere operations. In addition to the company’s seismic data library and E&P services group.

“I am grateful to have had the opportunity to work with Richard and congratulate him on his retirement,” said Peebles. “While the current oil and gas environment remains challenging, innovation, exceptional operational performance, and strong customer relationships will bring us through these tough times and position us to be a leader in providing fast, actionable and affordable seismic to the E&P industry.”

**Crowley opens two new centers in Jacksonville**

Crowley Maritime Corp.'s logistics group is opening two new warehouses in Jacksonville, Florida, to better serve the needs of its full and less-than-container load customers shipping cargo through, or within the northeast Florida area.

The first of the two facilities opened Sept. 15 and is located at 1350 Tradeport Drive, on the city's northside near Jacksonville International Airport. It replaces the company's former 3700 Port Jacksonville Parkway location, and offers customers increased capacity and yard space along with 12 dock-high doors for faster cargo handling. The 49,702-square-foot facility will operate Monday through Friday from 8 a.m. to 5 p.m. and offers various warehousing and dis-

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

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All of the companies listed above advertise on a regular basis with Petroleum News.
standing service to the state but their services have tended to be limited to economic analysis and comparisons of tax regimes and economic analysis of the proposed AKLNG project.

That consulting group does not necessarily bring to the table a full spectrum of experience in the entire value chain and the documentation of a complex international LNG project that involves a sovereign entity, the sovereign being the state. I have been investigating, identifying and talking to consulting firms that bring that latter experience to the table. I’m currently in conversations with those folks. Before we have fully papered agreement in front of us with all of the necessary commercial agreements being considered I expect to have a qualified consultant on board who can help us wade through that level of a project.

Petroleum News: Speaking of someone who understands the value chain, there is one person in the state, though he works for the Kenai Peninsula Borough and he used to work for you, Larry Persily. Even as he does work for the borough what kind of statewide value is there to having Larry back in Alaska? Hawker: I have great respect for Mr. Persily. Mr. Persily is the go-to guy in the state of Alaska for these sort of things. He’s extremely competent. He’s extremely versed in these subjects. He puts a great deal of his personal career into it. He brings a non-partisan credibility to the debate and dialogue.

Petroleum News: Looking further ahead to the coming regular session next year, there will certainly be discussions and a bill to rewrite how the state employs tax credits in its tax code. How do you feel about that? Hawker: The devil will be in the details. I think it is always incumbent on the Legislature to review the incentives that we provide for economic development in this state. We look at the incredible success that was achieved with the Cook Inlet Recovery Act in getting a natural gas storage facility established, a storage facility that is used almost every day in the winter to keep gas flowing in Anchorage, a bill that inspired a resurgence of investment in Cook Inlet. We accomplished the mission. It’s absolutely incumbent upon us to take a look and ask are those economic incentives still the right incentives for the right amount and do they target the right activities. It’s a constant process the Legislature needs to go through. I certainly expect to see that occur next session, both for Cook Inlet and the North Slope. I think it’s inevitable there will be some changes that come out of that. But we really can’t evaluate what’s right and what’s wrong until we sit down and put all the pieces on the table and have an economic discussion and not simply a partisan political discussion.

Petroleum News: Do you think it became partisan when the new administration took over? Hawker: I don’t think it’s any more or less partisan than it has been in the past. It’s always been good sport to beat up the oil industry in the state. They are the biggest kid on the block. The state is in fact dependent on them. They are obviously targets for the political process here.

Petroleum News: Circling back to the special session, what would your goals or priorities be for the coming special session for advancing a gas line? Hawker: The Legislature and the governor must resolve the TransCanada issue. Are they in or are they out. In order to paper a project, all the sponsors need to know who the partners are. Is TransCanada a member of this or not? And if they are not does the state have the money to continue as a partner in this? So these things need to be resolved up front. Between now and the end of the year the thing we can resolve is the TransCanada agreement. We need to make that decision: in or out. If they are out, then how are we going to finance our share of the money required up to FEED. We’ve heard that being up to $1 billion up to FEED.

A major hurdle, which has become a stumbling block in AKLNG negotiations, is whether or not the state exercises its ability to permanently lock in royalty in kind in order to support this project. That is a decision that is vested with the...
covered? Are the pools really capable of producing in paying quantities?

In its July 30, 2013, discovery statement, Furie claimed that the KLU No. 3 well had encountered 29 horizons in the Sterling and Beluga formations that the company believed to be previously undiscovered gas pools. Of those 29 potential horizons, the company said that it had conducted modular formation dynamic testing on 28 and flow tests on six. When state officials reviewed a Schlumberger report attached to the discovery statement, they found “no evidence of MDT or flow testing” for 10 of those horizons and eliminated those 10 from consideration. Even if the testing had occurred, the state determined that only a flow test could conclusively define a “gas pool” as required under state regulations.

**Only flow tests considered**

Of the six horizons that Furie flow tested, the state found two to be “water-bearing, not an accumulation of oil or gas.” The four remaining horizons met the definition of a “pool.”

They are: Horizon 6 in the Sterling from 4,190 feet to 4,225 feet, Horizon 25 in the Beluga from 5,941 feet to 5,959 feet, Horizon 26 in the Beluga from 5,999 feet to 6,005 feet and Horizon 28 from 6,964 feet to 6,998 feet, using measured depths in the well.

While those four pools may have been encountered by previous wells, the state determined that “no credible well tests were found to have been performed on those horizons in any surrounding well,” which meets the standard for “undiscovered.”

Using third-party reserve estimates and projected natural gas prices, the state determined that the natural gas contained in the four pools would be commercially viable.

The state originally provided a lower royalty rate for discovery wells but repealed the reduction in 1969, after the state re-instated the reduction through the Cook Inlet Discovery Royalty program enacted in 1996 and 1997.


In the most recent plan of development for the unit, from November 2014, Furie said that the KLU No. 3 well — drilled in 2013 — had produced 15.83 million cubic feet during a four-point test and that gas samples taken during the test were 99 percent methane.

After several years of drilling and several years of construction, Furie has said it expects to bring the Kitchen Lights unit into production from the KLU No. 3 well as soon as November 2015, in time to meet contractual commitments that begin in January 2016.
achieve growth and collective prosperity by concentrating on four key areas: economic and fiscal competitiveness; enhanced market access; environmental sustainability; and aboriginal engagement.

**Call for pipeline projects**

Market access was the primary trust when CAPP President Tim McMillan argued that whoever wins the election on Oct. 19 — the governing Conservatives, Liberals or New Democratic Party — must take an active role in advancing pipeline projects, or risk putting the national economy in jeopardy.

He told the National Post said the log-jam of major export pipelines must be freed up to secure the industry’s competitive position.

“If not — we are out of the game,” he warned.

The failure to introduce more pipelines has undercut the crude prices fetched by Canadian producers by an average US$13 per barrel lower than U.S. crude this year, further squeezing the margins in a depressed oil price environment.

The CAPP paper said strong growth in Canadian and U.S. oil production will become “constrained in the next few years” without new and expanded pipelines.

Despite the hammering commodity prices have taken and the “on-going carbon reduction movement,” CAPP said oil and gas “will continue to be in demand for the foreseeable future,” which puts pressure on the industry to find new ways to link supplies with domestic and international markets.

The organization also said improved infrastructure will enable Canada to displace oil imports, which account for 80 percent of consumption in Quebec and Atlantic Canada, reinforcing the industry’s economic role, which currently includes 550,000 direct and indirect jobs and $18 billion in annual payments to the federal and provincial governments.

**Production target down**

But the combination of stalled upstream and pipeline projects has forced CAPP to lower its production target by 1.1 million barrels per day to 5.3 million bpd by 2030, although a fundamental change could see some revisions, McMillan said.

However, he suggested the economics have become even worse since June, forcing CAPP to “make a judgment call on whether this is a meaningful change.”

For now, oil has been pushed off top priority, with transportation and 21 percent to the producing sector and 4 percent to pipelines and refineries.

The paper said the oil sands industry, widely deemed to be the major culprit, has invested $1 billion to share 777 technologies and best practices to find innovative ways to reduce GHGs, minimize the impact on land, reduce water use and improve the management of often-toxic tailings from mining operations.

CAPP said climate change is “a global challenge that needs to be addressed with broadly-based policies that consider production and consumption,” adding that “everyone has a role to play.”

On the sensitive issue of industry relations with First Nations, the paper noted that in 2013 and 2014 CAPP oil sands members had direct business dealings estimated at $3.7 billion with 327 aboriginal companies in Alberta.

It said the industry is committed to building “positive and beneficial relationships” with aboriginal communities “where we work.”

Contact Gary Pask through pubrelations@gaspask.com

**Heavily engaged** in Alberta

McMillan said CAPP is “heavily engaged” with the New Democratic Party government in Alberta as it prepares to deal with panels appointed to make recommendations on climate change and royalties.

The organization is also gearing up to make its case to the United Nations Climate Change Conference in Paris that starts in late November that of all the countries exporting crude to the United States only Canada imposes carbon pricing, he said.

McMillan also argued that despite the opposition in Canada to export pipelines, Canada believes it can lift 2 billion people in emerging economies from energy poverty by supplying LNG and crude oil.

CAPP, in responding to the common wisdom, said oil and gas producers are “committed to developing solutions the world needs for a cleaner energy future.”

In its own defense, CAPP also noted that Canada is responsible for only 2 percent of the world’s greenhouse gas emissions, compared with 10 percent in the European Union, 15 percent in the United States and 24 percent in China.

Of Canada’s emissions, 25 percent were attributed to transportation and 21 percent to the producing sector and 4 percent to pipelines and refineries.

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LIBERTY PLAN

DPP, it must prepare an environmental impact statement for the development program Hilcorp is proposing for Liberty. The federal agency said it intended the issue a notice of intent to prepare an EIS Sept. 25, after Petroleum News went to print. According to the agency, the EIS will likely take “several years” to prepare and “will be closely coordi-
nated with numerous federal and state agencies and consul-
tations with appropriate federally recognized tribes.”

Gravel island

Hilcorp is proposing to develop the Liberty prospect from an artificial 9.3-acre gravel island constructed in 19 feet of water some 5 miles off the North Slope coast. A revised version of the plan from September 2015 describes a project capable of processing and exporting some 5 miles of water some 5 miles off the North Slope coast.

While natural gas would be used for field activities and reinjection, oil would be shipped through a new 12-inch pipeline to the existing Badami Sales Oil Pipeline. The new pipeline would be approximately 7.1 miles long, of which 5.6 miles would be offshore.

In its plan, Hilcorp described Liberty as the “largest delineated undeveloped light oil reservoir on the North Slope,” capable of producing between 80 million and 150 million barrels over a 15- to 20-year field life and reaching peak production within two years.

Another attempt

Shell Oil Co. discovered the Liberty field between 1982 and 1987, through a four-well delineation campaign into the Keelikok formation from Tern Island and Goose Island. BP Exploration (Alaska) Inc. acquired tract OCS-Y-1650 in a September 1996 federal lease sale and began permitting the Liberty No. 1 exploration well. The company drilled the well in February 1997 later confirmed a 120 million barrel discovery at the field.

The company submitted a DPP to the U.S. Minerals Management Service, BOEM’s predecessor, in February 1998 calling for an offshore gravel island but suspended the project in July 2001. After several years of additional study, BP proposed a new plan in August 2005. The ambitious plan would have used ultra-extended-reach drilling to reach the reservoir from an onshore pad at the satellite drilling island on the Endicott causeway. The idea was to harness recent advances in drilling technology to avoid the potential environmental impact of an island.

With federal approval of the proposal, BP expanded the Endicott facilities and commissioned a drilling rig, although a review of the program following the Deepwater Horizon blowout in the Gulf of Mexico created additional uncertainty. BP suspended the project in November 2010, abandoned the ultra-extended-reach drilling proposal in June 2012 and revived the idea of an artificial gravel island in late 2013. By suspending the project in 2012, the federal government gave the company until the end of 2014 to submit a new DPP, by which time Hilcorp had acquired a 50 percent interest in Liberty. As operator, Hilcorp filed the new DPP and will lead the project going forward.

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ICEWINE WELL

including status reports on activity to be filed May 1 and Nov. 1 of each year until a final completion report is filed and provi-
sion of a certified as-built survey of all improvements within one year of place-
ment. Accumulate Energy is a wholly owned subsidiary of Australian-based 88 Energy, which said in a Sept. 17 statement that two key permits remain to be closed out for the project, an oil discharge prevention and contingency plan and a permit to drill. This will be the first well in the state for Accumulate Energy. The well will be drilled on a tract acquired at a state oil and gas lease sale by Burgundy Exploration, with joint venture partner Accumulate Energy Alaska as operator. Burgundy acquired 98,182 contiguous acres of state oil and gas leases near White Hills in 2013 and 2014, an area where Unocal drilled five wells beginning in 2008. Burgundy took two tracts in the state’s 2013 North Slope area wide lease sale, was assigned four other White Hills leases in late 2013 and took 90,720 acres in the state’s 2014 North Slope area wide lease sale.

Current state lease records show Accumulate Energy Alaska as working interest owner of 85,909 acres and Burgundy as WO of 12,273 acres.

The company said in its application that it would use Nabors rig 105AC or a rig with similar specifications, but 88 Energy said in a Sept. 10 statement that it had executed a rig contract with Kuukpik Drilling for the well.

The company said in an August state-
ment that “definitive binding documentation has been executed with Bank of America” for funding the Icewine project up to $55 million.

The division said in its decision that the dates in Accumulate Energy’s application are approximate and may change due to weather, logistics requirements or regulatory decisions, but said it expects that while earlier dates may change, dates for finishing drilling, demobilization and cleanup would remain the same.

Accumulate’s schedule listed pre-season reconnaissance in July; permitting from February through mid-September; potential maintenance of pad and access roads in the second half of August; mobilization of camp and drilling rig in the second half of September; exploration drilling from mid-
October through mid-December, and demobilization in the second half of December.

The Division of Oil and Gas said the plan of operations for the project describes one vertical well “to core potentially petro-
iferous zones in both unconventional and conventional reservoirs,” with the goal of the pilot drilling program “to analyze the potential productivity, deliverability, and commerciality of the greater Icewine proj-
ect area.”

The division also said that depending on results from initial drilling and time remain-
ing in the season, Accumulate “may drill a lateral well, sidetracks, or additional pene-
trations from the same exploration pad.”

The division said Accumulate plans to use the existing Franklin Bluffs pad and White Hills staging area, but that the final location of the Icewine No. 1 well will ensure that it does not intersect with the drill path of the Franklin Bluffs No. 1, a shallow well drilled in 2005 by the federal Bureau of Land Management.

The division said the well is planned “as a single vertical well drilled into an unconven-
tional shale oil zone and potential liquid conventional hydrocarbon zones.”

—KRISTEN NELSON